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NORTH CAROLINA ADVANCED ENERGY CORPORATION

FINANCIAL STATEMENTS

Years Ended December 31, 2009 and 2008

FILED

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NORTH CAROLINA ADVANCED ENERGY CORPORATION

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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, 2009 and 2008, and the related statements of activities and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Carolina Advanced Energy Corporation as of December 31, 2009 and 2008, 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 5, 2010, 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 performed for the purpose of forming an opinion on the basic financial statements of North Carolina Advanced Energy Corporation taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis only, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Williams Overman Pierce, LLP

Raleigh, North Carolina
April 5, 2010

Raleigh • Greensboro

NORTH CAROLINA ADVANCED ENERGY CORPORATION
STATEMENTS OF FINANCIAL POSITION
December 31, 2009 and 2008

ASSETS

	<u>2009</u>	<u>2008</u>
Current Assets:		
Cash and cash equivalents	\$ 3,137,855	\$ 3,265,101
Interest receivable	20,008	
Accounts receivable, net	1,054,731	1,027,628
Grants receivable	9,227	36,934
Related party receivable	34,155	78,581
Prepaid expenses	116,617	93,872
Total current assets	<u>4,372,593</u>	<u>4,502,116</u>
Property and Equipment:		
Furniture and fixtures	304,840	305,892
Vehicles	26,502	54,688
Leasehold improvements	311,006	311,006
Equipment	1,166,047	1,385,357
	1,808,395	2,056,943
Less: accumulated depreciation	<u>(1,563,738)</u>	<u>(1,771,522)</u>
	<u>244,657</u>	<u>285,421</u>
Other Assets:		
Investment	<u>150,000</u>	<u>150,000</u>
	<u>\$ 4,767,250</u>	<u>\$ 4,937,537</u>

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable and accrued expenses	\$ 483,758	\$ 733,361
Deferred revenue	<u>7,738</u>	<u>65,299</u>
Total current liabilities	<u>491,496</u>	<u>798,660</u>
Net assets - unrestricted	<u>4,275,754</u>	<u>4,138,877</u>
	<u>\$ 4,767,250</u>	<u>\$ 4,937,537</u>

See accompanying notes to financial statements.

NORTH CAROLINA ADVANCED ENERGY CORPORATION
 STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
 Years ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Revenues:		
Utility funding	\$ 3,694,972	\$ 3,886,776
Government grants	344,932	621,350
Interest	22,828	69,906
Other revenue	<u>3,019,373</u>	<u>2,787,389</u>
Total revenues	<u>7,082,105</u>	<u>7,365,421</u>
Expenses:		
Products and services	5,495,323	5,307,973
Corporate support services	<u>1,449,905</u>	<u>1,577,201</u>
Total expenses	<u>6,945,228</u>	<u>6,885,174</u>
Increase in net assets	136,877	480,247
Net assets, beginning of year	<u>4,138,877</u>	<u>3,658,630</u>
Net assets, end of year	<u>\$ 4,275,754</u>	<u>\$ 4,138,877</u>

See accompanying notes to financial statements.

NORTH CAROLINA ADVANCED ENERGY CORPORATION
 STATEMENTS OF CASH FLOWS
 Years ended December 31, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Cash received from grants and donors	\$ 7,078,447	\$ 7,216,341
Cash paid to suppliers and employees	(7,176,005)	(6,810,811)
Interest received	22,828	69,906
Net cash (used in) provided by operating activities	<u>(74,730)</u>	<u>475,436</u>
Cash flows from investing activities:		
Purchase of fixed assets	(66,355)	(142,559)
Proceeds from disposal of fixed assets	13,839	
Sale of auction rate securities		2,200,000
Net cash (used in) provided by investing activities	<u>(52,516)</u>	<u>2,057,441</u>
Net (decrease) increase in cash	(127,246)	2,532,877
Cash, beginning of year	<u>3,265,101</u>	<u>732,224</u>
Cash, end of year	<u>\$ 3,137,855</u>	<u>\$ 3,265,101</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 136,877	\$ 480,247
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	99,132	111,158
Gain on disposal of assets	(5,852)	
Changes in operating assets and liabilities:		
Receivables	25,022	(79,174)
Prepaid expenses and other assets	(22,745)	(15,168)
Accounts payable and accrued expenses	(249,603)	(80,188)
Deferred revenue	(57,561)	58,561
Net cash provided by operating activities	<u>\$ (74,730)</u>	<u>\$ 475,436</u>

See accompanying notes to financial statements.

NORTH CAROLINA ADVANCED ENERGY CORPORATION
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2009 and 2008

1. Summary of Significant Accounting Policies:

Corporation and Nature of Activities:

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

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

Approximately 52% of the Corporation's funding is derived from the ratepayers of three North Carolina investor-owned utilities and the state's twenty-eight electric cooperatives. Should the electric utilities and the North Carolina Utilities Commission (the "Commission") decide that collecting these funds is no longer either in the utilities' interest or in the interest of their consumers, then this action could have a material adverse effect on the Corporation's operating results.

Basis of accounting:

The financial statements of the Corporation have been prepared on the accrual basis of accounting whereby revenues are recognized when earned and expenditures are recognized when incurred. The basis of accounting conforms to accounting principles generally accepted in the United States of America.

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.

NORTH CAROLINA ADVANCED ENERGY CORPORATION
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2009 and 2008

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 as required by the Income Tax Topic of the FASB Accounting Standards Codification. This Topic prescribes a recognition threshold and measurement process for financial statement recognition of uncertain tax positions taken or expected to be taken in a tax return. The interpretation also provides guidance on recognition, de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Corporation adopted the provisions of the Topic on January 1, 2009. Management has determined that there was no impact on total liabilities or net assets as a result of the adoption.

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 related to services provided to customers. As of December 31, 2009 and 2008 management believed that some accounts may be uncollectible. As such, an allowance for doubtful accounts was established. The allowance for doubtful accounts at December 31, 2009 and 2008 was \$9,450 and \$10,000, respectively.

NORTH CAROLINA ADVANCED ENERGY CORPORATION
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2009 and 2008

Basis of Presentation:

As required by the Presentation of Financial Statements Topic of the FASB Accounting Standards Codification, the Corporation reports information regarding its financial position and activities are classified and reported 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 that are required by donor-imposed stipulations to be maintained permanently by the Corporation are classified as permanently restricted net assets.

All net assets are considered to be unrestricted at December 31, 2009 and 2008.

Revenue Sources and Recognition:

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

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

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

Deferred Revenues:

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

NORTH CAROLINA ADVANCED ENERGY CORPORATION
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2009 and 2008

Property and Equipment:

Equipment, furniture and fixtures are recorded at cost. Assets are capitalized if they have a life longer than one year and have a cost of \$1,000 or greater. Depreciation and amortization expenses are computed on a straight-line basis over the estimated useful lives of the assets ranging from three to ten years. Depreciation expense for the years ended December 31, 2009 and 2008 was \$99,132 and \$111,158, respectively.

Donated Services:

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

Donated services totaled \$6,645 and \$10,131 in 2009 and 2008, respectively. There were no donated materials in 2009, while donated materials totaled \$175,339 in 2008. These amounts are included in the statements of activities as other revenue and products and services expense. The donated services consist of motor testing and engineering services.

Product and Service Teams:

Product and 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 and Service Teams.

Corporate Support Services:

Corporate Support is comprised 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 2008 financial statements to conform with the 2009 presentation. Such reclassifications have no impact on the change in net assets or net assets.

NORTH CAROLINA ADVANCED ENERGY CORPORATION
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2009 and 2008

2. Concentrations of Credit Risk:

The Corporation maintains bank accounts at a local bank. Accounts at the institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at December 31, 2009 and 2008. Cash at this institution exceeded federally insured limits. The amount in excess of the FDIC limit totaled \$3,071,124 and \$3,281,976 as of December 31, 2009 and 2008, respectively.

North Carolina investor-owned utilities and electric cooperatives comprise 42% and 41% of the Corporation's receivables as of December 31, 2009 and 2008, respectively.

3. Marketable Securities:

During 2008, marketable securities consisted of auction rate securities (long-term, variable rate bonds tied to short-term interest rates that reset regularly, usually every 28 days, after auctions). Due to several failed auctions and the bank's refusal to support these auctions, marketable securities were liquidated in December 2008.

4. Investment:

Effective January 1, 2009, the Corporation adopted the requirements of the Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification, which defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands the disclosure related to fair value measurements.

This Topic establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and are given the highest priority; Level 2 inputs consist of observable inputs other than quoted prices for identical assets; and Level 3 inputs consist of unobservable inputs and are given 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 as 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.

NORTH CAROLINA ADVANCED ENERGY CORPORATION
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2009 and 2008

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

Fair Value Measurements Using:

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

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

	Investment in Microcell Corporation
<u>December 31, 2009</u>	
Beginning balance January 1, 2009	\$ 150,000
Total gains or losses (realized and unrealized)	
Purchases, sales, issuances, and settlements (net)	<u> </u>
Ending balance December 31, 2009	\$ <u>150,000</u>

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.

NORTH CAROLINA ADVANCED ENERGY CORPORATION
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2009 and 2008

5. Lease Commitments:

The Corporation is obligated under operating leases for the rental of office space and equipment. Rent expense totaled \$519,664 and \$424,260 for 2009 and 2008, respectively.

Future minimum lease payments under operating leases are as follows:

<u>Year ending December 31,</u>	<u>Amount</u>
2010	\$ 465,000
2011	<u>427,000</u>
	<u>\$ 892,000</u>

6. Advertising Costs:

The Company expenses advertising costs as incurred. Advertising expense for the years ended December 31, 2009 and 2008 was \$13,517 and \$29,256, respectively.

7. Retirement Plan:

The Corporation has established a defined contribution retirement plan under Section 403(b) of the Internal Revenue Code. The plan benefits all employees meeting certain eligibility requirements. Employees are allowed to make contributions to the plan in addition to the Corporation's contribution which is based on an employee's level of annual compensation. Employees become 100% vested in the Corporation's contribution concurrent with meeting the eligibility requirements. Retirement expense for 2009 and 2008 was \$300,815 and \$269,485, respectively.

8. Related Party:

In February 2003, NC GreenPower Corporation ("NCGP") was incorporated as a nonprofit entity. The mission of NCGP is to provide financial incentives to encourage the development of renewable energy resources. It is funded primarily by voluntary contributions from electric utilities ratepayers in North Carolina. The Corporation's Board of Directors constitute the members of NCGP. Certain resolutions of the Board of Directors of NCGP require two thirds of the votes of the membership to adopt. The Corporation historically provided contributions for marketing and administration operations to NCGP each year based on NCGP's need at the determination of the Board of Directors. There were no contributions made to fund operations for the years ended December 31, 2009 and 2008.

NORTH CAROLINA ADVANCED ENERGY CORPORATION
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2009 and 2008

During 2009 and 2008, the Corporation charged NCGP for services provided by its staff and use of facilities in the amount of \$513,427 and \$508,366, respectively. As of December 31, 2009 and 2008, the Corporation was due \$34,155 and \$78,581, respectively from NCGP.

9. Functional Expenses:

Functional expenses consist of the following:

	2009		
	Products and 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>

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

10. Subsequent Events

Management has evaluated subsequent events through April 5, 2010, the date which the financial statements were available to be issued. No significant subsequent events have been identified.

SUPPLEMENTARY FINANCIAL INFORMATION

NORTH CAROLINA ADVANCED ENERGY CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended December 31, 2009

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<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State Contract Number</u>	<u>Total Expenditures</u>
Federal Awards:			
United States Department of Energy:			
Pass-through from National Center for Energy Management & Building Technologies:			
Closed Crawl Space Performance	81.087	N/A	\$ 11,900
Pass-through from State of Arizona, Department of Commerce Energy Office:			
Arizona Home Performance Program	81.119	N/A	102,806
Pass-through from North Carolina, State Energy Office:			
NC Weatherization Program	81.042	N/A	10,500
State Energy Program (Technical Assistance)	81.041	N/A	10,412
Pass-through from New York Energy Research and Development Authority:			
Motor Study Project	81.117	N/A	10,000
United States Department of Housing & Urban Development:			
Healthy Homes Technical Studies	14.906	N/A	<u>199,314</u>
Research and Development Cluster			<u>\$ 344,932</u>

Note 1. Basis of Presentation:

The schedule of expenditures of federal awards includes the federal grant activity of the Corporation and is presented on the accrual basis of accounting.

COMPLIANCE SECTION



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

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

We have audited the financial statements of North Carolina Advanced Energy Corporation as of and for the year ended December 31, 2009, and have issued our report thereon dated April 5, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether North Carolina Advanced Energy Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and



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

We noted certain other matters that we reported to management of North Carolina Advanced Energy Corporation in a separate letter dated April 5, 2010.

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 Dyerman Pierce, LLP

Raleigh North Carolina
April 5, 2010