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N.C. Utilities Commission

**NORTH CAROLINA ADVANCED
ENERGY CORPORATION**

Financial Statements

December 31, 2000 and 1999

(With Independent Auditors' Report)

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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") as of December 31, 2000 and 1999 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 generally accepted auditing standards. 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 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, 2000 and 1999, and the changes in net assets and cash flows for the years then ended in conformity with generally accepted accounting principles.

Bachelor, Tillery & Roberts, LLP

February 16, 2001

NORTH CAROLINA ADVANCED ENERGY CORPORATION

Statements of Financial Position

December 31, 2000 and 1999

<u>Assets</u>	<u>2000</u>	<u>1999</u>
Current assets:		
Cash and cash equivalents	\$ 2,623,661	2,590,676
Receivables:		
Accounts receivable	877,404	749,762
Other	8,890	28,613
	<u>886,294</u>	<u>778,375</u>
Prepaid expenses and other assets	49,235	132,403
Total current assets	<u>3,559,190</u>	<u>3,501,454</u>
Property and equipment:		
Equipment, furniture and fixtures	1,670,168	1,530,189
Less accumulated depreciation and amortization	(1,214,783)	(1,037,298)
	<u>455,385</u>	<u>492,891</u>
Investment (at cost)	150,000	-
	<u>\$ 4,164,575</u>	<u>3,994,345</u>
 <u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable and accrued expenses	350,411	214,477
Deferred revenue	11,444	9,445
Total current liabilities	<u>361,855</u>	<u>223,922</u>
Commitments		
Net assets:		
Unrestricted	2,866,430	3,117,479
Unrestricted-board designated	936,290	652,944
	<u>3,802,720</u>	<u>3,770,423</u>
	<u>\$ 4,164,575</u>	<u>3,994,345</u>

See accompanying notes to financial statements.

NORTH CAROLINA ADVANCED ENERGY CORPORATION

Statements of Activities

Years ended December 31, 2000 and 1999

	<u>2000</u>	<u>1999</u>
Revenues:		
Utility funding	\$ 3,619,157	3,501,344
Interest	165,220	132,679
Other revenue	<u>926,800</u>	<u>887,728</u>
Total revenues	<u>4,711,177</u>	<u>4,521,751</u>
Expenses:		
Products and services	2,825,514	2,765,507
Business development	926,968	832,148
Corporate support services	<u>926,398</u>	<u>761,643</u>
Total expenses	<u>4,678,880</u>	<u>4,359,298</u>
Increase in net assets	32,297	162,453
Net assets, beginning of year	<u>3,770,423</u>	<u>3,607,970</u>
Net assets, end of year	\$ <u>3,802,720</u>	3,770,423

See accompanying notes to financial statements.

NORTH CAROLINA ADVANCED ENERGY CORPORATION

Statements of Cash Flows

Years ended December 31, 2000 and 1999

	<u>2000</u>	<u>1999</u>
Operating activities:		
Increase in net assets	\$ 32,297	162,453
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	177,485	213,115
Changes in operating assets and liabilities:		
Receivables	(107,919)	(199,230)
Prepaid expenses and other assets	83,168	(88,807)
Accounts payable and accrued expenses	135,934	(101,302)
Unearned revenue	<u>1,999</u>	<u>(6,949)</u>
Net cash provided by (used in) operating activities	<u>322,964</u>	<u>(20,720)</u>
Investing activities:		
Purchases of equipment, furniture and fixtures	(139,979)	(36,984)
Investments	<u>(150,000)</u>	<u>-</u>
Net cash used in investing activities	<u>(289,979)</u>	<u>(36,984)</u>
Net increase (decrease) in cash and cash equivalents	32,985	(57,704)
Cash and cash equivalents, beginning of year	<u>2,590,676</u>	<u>2,648,380</u>
Cash and cash equivalents, end of year	\$ 2,623,661	2,590,676

See accompanying notes to financial statements.

NORTH CAROLINA ADVANCED ENERGY CORPORATION

Notes to Financial Statements

December 31, 2000 and 1999

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

North Carolina Alternative Energy Corporation (the "Corporation") was formed on April 18, 1980, as a nonprofit entity. During 1997, the Corporation changed its legal name to North Carolina Advanced Energy Corporation. Corporate goals are directed towards helping residential, commercial, and industrial customers improve the "return" on their energy investment. The Corporation has in the past and is now pursuing various broad-based programs that should help 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. 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.

Approximately 80% 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 was 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 the financial statements in conformity with generally accepted accounting principles 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.

(c) Cash Equivalents

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

NORTH CAROLINA ADVANCED ENERGY CORPORATION

Notes to Financial Statements, Continued

December 31, 2000 and 1999

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

(d) Accounts Receivable

Accounts receivable consists of unconditional promises to give due in less than one year and receivables related to services provided to clients. Management uses the direct write-off method of accounting for uncollectible accounts. In the opinion of management, all accounts considered to be uncollectible as of December 31, 2000 and 1999 had been written off. Bad debt expense using the direct write-off method would not differ materially from bad debt expense calculated using the reserve method.

(e) 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.

(f) Deferred Revenues

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

(g) 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. Depreciation and amortization expense for the years ended December 31, 2000 and 1999 was \$177,485 and \$213,115, respectively.

(h) 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, 2000 and 1999

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

(i) Corporate Support Services

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

(j) Unrestricted Net Assets-Board Designated

The board of directors has designated a fund balance to segregate funds that have accumulated as a result of a multi-year plan to prepare for the possibility of electric utility restructuring legislature in North Carolina. Planned segregation of funds will be adjusted yearly as necessary as it becomes more clear whether and when deregulation will take place in North Carolina. It is anticipated that in the final year of the plan, the annual division of Commission authorized funding between this fund and monies dedicated to member utility service accounts will be determined by the amount of value-added services our member utilities will order after deregulation.

(2) Investment

The Corporation has invested \$150,000 in Microcell, a for-profit development stage 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 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. In addition, Microcell leases office space from the Corporation. Total payments by Microcell to the Corporation were \$11,669 in 2000.

(3) Lease Commitments

The Corporation is obligated under an operating lease for the rental of office space which expires in September, 2006. Rent expense was \$347,669 and \$346,110 for the years ended December 31, 2000 and 1999, respectively.

Future minimum lease payments under the above operating lease is as follows:

Year ending December 31:

2001	\$ 347,538
2002	347,538
2003	347,538
2004	347,538
2005	347,538
Thereafter	<u>231,692</u>
	\$ 1,969,382

NORTH CAROLINA ADVANCED ENERGY CORPORATION

Notes to Financial Statements, Continued

December 31, 2000 and 1999

(4) Retirement Plan

Effective January 1, 1982, the Corporation 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 2000 and 1999 was \$175,813 and \$182,100, 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, 2000, cash and cash equivalents consist of \$1,939,322 in commercial paper and \$663,173 in a repurchase agreement with a bank.

As of December 31, 1999, cash and cash equivalents consist of \$1,952,311 in commercial paper and \$696,069 in a repurchase agreement with a bank.

Five North Carolina investor-owned utilities comprise 40% and 76% of the Corporation's receivables as of December 31, 2000 and 1999, respectively.

(6) Functional Expenses

Functional expenses consist of the following:

	<u>2000</u>			
	<u>Products/ services</u>	<u>Business development</u>	<u>Corporate support</u>	<u>Total</u>
Salaries	\$ 1,063,430	344,866	458,036	1,866,332
Professional services	461,423	157,546	133,266	752,235
Travel and meetings	304,811	149,634	47,157	501,602
Facilities	328,810	70,713	90,609	490,132
Fringe benefits	297,541	89,483	89,938	476,962
Team expenses	154,419	27,914	13,682	196,015
Equipment	81,879	-	58,052	139,931
Other costs	<u>133,201</u>	<u>86,812</u>	<u>35,658</u>	<u>255,671</u>
	\$ 2,825,514	926,968	926,398	4,678,880

NORTH CAROLINA ADVANCED ENERGY CORPORATION

Notes to Financial Statements, Continued

December 31, 2000 and 1999

(6) Functional Expenses, continued

	<u>1999</u>			
	<u>Products/ services</u>	<u>Business development</u>	<u>Corporate support</u>	<u>Total</u>
Salaries	\$ 1,225,246	335,284	377,389	1,937,919
Professional services	299,343	164,012	50,572	513,927
Facilities	348,240	68,976	82,219	499,435
Fringe benefits	313,022	84,151	90,025	487,198
Travel	230,034	118,690	46,248	394,972
Team expenses	138,693	22,132	20,328	181,153
Equipment	94,867	-	70,136	165,003
Other costs	<u>116,062</u>	<u>38,903</u>	<u>24,726</u>	<u>179,691</u>
	<u>\$ 2,765,507</u>	<u>832,148</u>	<u>761,643</u>	<u>4,359,298</u>