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Docket E-100 Sub 37A
2007 Advanced Energy Financial Statements

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**NORTH CAROLINA ADVANCED ENERGY
CORPORATION**

E-100, Sub 37A

FINANCIAL STATEMENTS

Years Ended December 31, 2007 and 2006



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, 2007 and 2006, 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 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, 2007 and 2006, 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 May 6, 2008, on our consideration of North Carolina Advanced Energy Corporation's internal control over financial reporting and on our test 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 audit.

Our audits were 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 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.

Williams Overman Pierce, LLP

Raleigh, North Carolina
May 6, 2008

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NORTH CAROLINA ADVANCED ENERGY CORPORATION
STATEMENTS OF FINANCIAL POSITION
December 31, 2007 and 2006

	<u>ASSETS</u>	
	<u>2007</u>	<u>Restated 2006</u>
Current Assets:		
Cash and cash equivalents	\$ 732,224	\$ 468,626
Marketable securities		1,300,000
Accounts receivable	954,458	557,064
Grants receivable	101,768	492,544
Prepaid expenses	86,447	80,213
Total current assets	<u>1,874,897</u>	<u>2,898,447</u>
Property and Equipment:		
Furniture and fixtures	279,436	272,663
Vehicles	54,688	54,688
Leasehold improvements	311,006	311,006
Equipment	1,346,230	1,313,691
	<u>1,991,360</u>	<u>1,952,048</u>
Less: accumulated depreciation	<u>(1,737,340)</u>	<u>(1,620,552)</u>
	<u>254,020</u>	<u>331,496</u>
Marketable securities	2,200,000	
Investment	<u>150,000</u>	<u>150,000</u>
	<u>\$ 4,478,917</u>	<u>\$ 3,379,943</u>

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable and accrued expenses	\$ 813,549	\$ 466,242
Deferred revenue	<u>6,738</u>	<u>6,738</u>
Total current liabilities	<u>820,287</u>	<u>472,980</u>
Net assets - unrestricted	<u>3,658,630</u>	<u>2,906,963</u>
	<u>\$ 4,478,917</u>	<u>\$ 3,379,943</u>

See accompanying notes to financial statements.

NORTH CAROLINA ADVANCED ENERGY CORPORATION
 STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
 Years ended December 31, 2007 and 2006

	<u>2007</u>	<u>Restated 2006</u>
Revenues:		
Utility funding	\$ 3,799,847	\$ 3,811,379
Government grants	1,575,120	737,088
Interest	98,367	63,789
Other revenue	<u>3,017,048</u>	<u>2,499,064</u>
Total revenues	<u>8,490,382</u>	<u>7,111,320</u>
Expenses:		
Products and services	5,922,104	5,598,453
Corporate support services	<u>1,816,611</u>	<u>1,676,791</u>
Total expenses	<u>7,738,715</u>	<u>7,275,244</u>
Increase (decrease) in net assets	751,667	(163,924)
Net assets, beginning of year	<u>2,906,963</u>	<u>3,070,887</u>
Net assets, end of year	<u>\$ 3,658,630</u>	<u>\$ 2,906,963</u>

See accompanying notes to financial statements.

NORTH CAROLINA ADVANCED ENERGY CORPORATION
 STATEMENTS OF CASH FLOWS
 Years ended December 31, 2007 and 2006

	2007	Restated 2006
Cash flows from operating activities:		
Cash received from grants and donors	\$ 8,376,557	\$ 7,338,833
Cash paid to suppliers and employees	(7,272,014)	(7,425,260)
Interest received	98,367	63,789
Net cash provided by (used in) operating activities	<u>1,202,910</u>	<u>(22,638)</u>
Cash flows from Investing activities:		
Purchase of fixed assets	(39,312)	(103,514)
Purchase of auction rate securities	<u>(900,000)</u>	
Net cash used in investing activities	<u>(939,312)</u>	<u>(103,514)</u>
Net increase (decrease) in cash	263,598	(126,152)
Cash, beginning of year	<u>468,626</u>	<u>594,778</u>
Cash, end of year	<u><u>\$ 732,224</u></u>	<u><u>\$ 468,626</u></u>
Reconciliation of change in net assets to net cash provided by (used in) operating activities:		
Change in net assets	\$ 751,667	\$ (163,924)
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	116,788	162,193
Changes in operating assets and liabilities:		
Receivables	(6,618)	291,302
Prepaid expenses and other assets	(6,234)	(43,939)
Accounts payable and accrued expenses	347,307	(236,670)
Deferred revenue	<u>(31,600)</u>	<u>(31,600)</u>
Net cash provided by (used in) operating activities	<u><u>\$ 1,202,910</u></u>	<u><u>\$ (22,638)</u></u>

See accompanying notes to financial statements

NORTH CAROLINA ADVANCED ENERGY CORPORATION
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2007 and 2006

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 45% 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 consumers, then this action could have a material adverse effect on the Corporation's operating results.

Use of Estimates:

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

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
Years ended December 31, 2007 and 2006

Receivables:

The Corporation periodically evaluates the balances in the various aging categories as well as the status of any significant past due accounts to determine the need for an allowance. Changes in the allowance are charged to the period in which management determines the change to be necessary.

When management determines that a receivable is uncollectible the balance is removed from the receivables balance and is charged against the expense. Subsequent recoveries of amounts previously written off are credited directly to earnings.

Receivables also consist of amounts due from state and federal grants receivables related to services provided to customers. In the opinion of management, all accounts considered to be uncollectible as of December 31, 2006 had been written off, and no allowance for doubtful accounts was required. As of December 31, 2007 management believed that some accounts may be uncollectible. As such, an allowance for doubtful accounts of \$28,000 was established.

Basis of accounting:

The Organization prepares its financial statements on the accrual basis of accounting and accordingly reflects all significant receivables, payables, and other liabilities.

Basis of Presentation:

In accordance with SFAS No. 117, Financial Statements of Not-for-Profit Organizations, The Organization 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 Organization and/or the passage of time are temporarily restricted net assets.

NORTH CAROLINA ADVANCED ENERGY CORPORATION
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2007 and 2006

Permanently Restricted Net Assets

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

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.

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.

Equipment, Furniture and Fixtures:

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, 2007 and 2006 was \$116,788 and \$162,193, respectively.

NORTH CAROLINA ADVANCED ENERGY CORPORATION
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2007 and 2006

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 \$37,736 and \$269,811 and donated materials totaled \$21,811 and \$94,044 in 2007 and 2006, respectively and are included in the statements of activities as other revenue and products and services. The donated services consist of motor testing and engineering services.

Product/Service Teams:

Product/Service teams develop products and services and deliver them to customers. These teams work in the following areas: motors, industrial process technologies, HVAC, residential new construction (site-built), and building diagnostics (residential and commercial). The Board of Directors approves the Corporation's annual Business Plan, which includes the plans of each of the Product/Service Teams.

Corporate Support Services:

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

Reclassification:

Certain reclassifications have been made in the 2006 financial statements to conform with the 2007 presentation. Such reclassifications have no impact on change in net assets or net assets.

2. Concentrations of Credit Risk:

The Organization maintains bank accounts at a local bank. Accounts at an institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Cash at this institution exceeded federally insured limits. The amount in excess of the FDIC limit totaled \$777,350 and \$380,787 as of December 31, 2007 and 2006, respectively.

North Carolina investor-owned utilities and electric cooperatives comprise 36% and 21% of the Corporations receivables as of December 31, 2007 and 2006, respectively.

NORTH CAROLINA ADVANCED ENERGY CORPORATION
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2007 and 2006

3. Marketable securities:

Marketable securities consist of auction rate securities which are long-term, variable rate bonds tied to short-term interest rates that reset regularly, usually every week, after auctions. They are recorded at cost (par) which approximates fair market value and are backed by student loans. Despite the long-term nature of the stated contractual maturities, historically there has been a readily liquid market for them.

However, during February 2008, several auctions failed and banks refused to support the auctions, leaving these securities frozen and not readily available.

As a result, at December 31, 2007, the securities are presented as long term in the accompanying statements of financial position.

4. Investment:

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 has been no event 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.

5. Lease Commitments:

The Corporation is obligated under operating leases for the rental of office space and equipment. Rent expense totaled \$425,471 and \$411,892 for 2007 and 2006, respectively.

NORTH CAROLINA ADVANCED ENERGY CORPORATION
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2007 and 2006

Future minimum lease payments under operating leases are as follows:

Year ending December 31,	<u>Amount</u>
2008	425,000
2009	434,000
2010	443,000
2011	<u>452,000</u>
	<u>\$ 1,754,000</u>

6. Advertising Costs:

The Company expenses advertising costs as incurred. The advertising expense for the years ended December 31, 2007 and 2006 was \$23,243 and \$7,526, 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 2007 and 2006 was \$261,210 and \$276,977, respectively.

8. Related Party:

In February 2003, NC GreenPower Corporation ("GreenPower") was incorporated as a nonprofit entity. The mission of the GreenPower 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 GreenPower. Certain resolutions of the Board of Directors of GreenPower require two thirds of the votes of the membership to adopt. The Corporation provides contributions to GreenPower each year based on GreenPower's need and at the determination of the Board of Directors. During 2007 and 2006, the Corporation contributed \$7,430 and \$116,817, respectively, to GreenPower.

During 2007 and 2006, the Corporation charged GreenPower for services provided by its staff and use of facilities in the amount of \$450,700 and \$334,582, respectively. As of December 31, 2007 and 2006, the Corporation was due \$48,648 and \$91,675, respectively from GreenPower.

NORTH CAROLINA ADVANCED ENERGY CORPORATION
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2007 and 2006

9. Functional Expenses:

Functional expenses consist of the following:

2007			
	<u>Products/ Services</u>	<u>Corporate Support</u>	<u>Total</u>
Salaries	\$ 2,449,675	\$ 984,328	\$ 3,434,003
Professional service	1,520,778	146,183	1,666,961
Travel and meetings	404,007	117,605	521,612
Facilities	449,901	132,502	582,403
Fringe Benefits	659,017	249,094	908,111
Team expenses	366,179	79,227	445,406
Equipment	32,245	69,361	101,606
Other costs	40,302	38,311	78,613
	<u>\$ 5,922,104</u>	<u>\$ 1,816,611</u>	<u>\$ 7,738,715</u>

Restated 2006			
	<u>Products/ Services</u>	<u>Corporate Support</u>	<u>Total</u>
Salaries	\$ 2,478,434	\$ 891,779	\$ 3,370,213
Professional service	454,907	163,159	618,066
Travel and meetings	419,754	97,861	517,615
Facilities	528,955	108,144	637,099
Fringe Benefits	730,004	239,005	969,009
Team expenses	729,381	77,301	806,682
Equipment	34,537	81,224	115,761
Other costs	222,481	18,318	240,799
	<u>\$ 5,598,453</u>	<u>\$ 1,676,791</u>	<u>\$ 7,275,244</u>

NORTH CAROLINA ADVANCED ENERGY CORPORATION
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2007 and 2006

10. Prior Year Restatement:

Previously issued financial statements for the year ended December 31, 2006 have been restated to correct errors. A certain error resulting in an overstatement of previously reported revenues and an overstatement of previously reported expenses was discovered during the current year. There is no effect on net assets for the year ended December 31, 2006. Also, an error resulting in an overstatement of previously reported expenses and an understatement of previously reported prepaid expenses was discovered during the current year. While previously reported net assets were increased, the expenses were reported in the current period thus there is no cumulative effect to net assets at December 31, 2007.