OFFICIAL COPY

FILED
OCT 15 2001
Clerk's Office
N.C. Utilities Commission

NORTH CAROLINA ADVANCED ENERGY CORPORATION

Financial Statements

December 31, 1999 and 1998

(With Independent Auditors' Report)

BATCHELOR, TILLERY & ROBERTS, LLP
CERTIFIED PUBLIC ACCOUNTANTS
POST OFFICE BOX 18068
RALEIGH, NORTH CAROLINA 27619

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

4700 HOMEWOOD COURT, SUITE 300
RALEIGH, NORTH CAROLINA 27609
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") as of December 31, 1999 and 1998 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, 1999 and 1998, and the changes in net assets and cash flows for the years then ended in conformity with generally accepted accounting principles.

Batchelor, Tillery & Roberts, LLP

February 11, 2000

NORTH CAROLINA ADVANCED ENERGY CORPORATION

Statements of Financial Position

December 31, 1999 and 1998

	1999	1998
Assets		
Current assets:		
Cash and cash equivalents	$ 2,590,676	2,648,380
Receivables:		
Accounts receivable	749,762	567,767
Other	28,613	11,378
	778,375	579,145
Prepaid expenses and other assets	132,403	43,596
Total current assets	3,501,454	3,271,121
Property and equipment:		
Equipment, furniture and fixtures	1,530,189	1,562,598
Less accumulated depreciation and amortization	(1,037,298)	(893,576)
	492,891	669,022
	$ 3,994,345	3,940,143
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	214,477	315,779
Deferred revenue	9,445	16,394
Total current liabilities	223,922	332,173
Commitments		
Net assets:		
Unrestricted	3,117,479	3,407,970
Unrestricted-board designated	652,944	200,000
	3,770,423	3,607,970
	$ 3,994,345	3,940,143

See accompanying notes to financial statements.

NORTH CAROLINA ADVANCED ENERGY CORPORATION

Statements of Activities

Years ended December 31, 1999 and 1998

	1999	1998
Revenues:		
Utility funding	$ 3,501,344	3,536,978
Interest	132,679	131,311
Other revenue	887,728	834,107
Total revenues	4,521,751	4,502,396
Expenses:		
Products and services	2,765,507	2,843,490
Business development	832,148	656,922
Corporate support services	761,643	585,508
Total expenses	4,359,298	4,085,920
Increase in net assets	162,453	416,476
Net assets, beginning of year	3,607,970	3,191,494
Net assets, end of year	$ 3,770,423	3,607,970

See accompanying notes to financial statements.

NORTH CAROLINA ADVANCED ENERGY CORPORATION

Statements of Cash Flows

Years ended December 31, 1999 and 1998

	1999	1998
Operating activities:		
Increase in net assets	$ 162,453	416,476
Adjustments to reconcile increase in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	213,115	233,549
Loss on sales of equipment		-
Changes in operating assets and liabilities:		
Receivables	(199,230)	(51,932)
Prepaid expenses and other assets	(88,807)	(22,113)
Accounts payable and accrued expenses	(101,302)	14,811
Unearned revenue	(6,949)	(101,971)
Net cash (used in) provided by operating activities	(20,720)	488,820
Investing activities-		
Purchases of equipment, furniture and fixtures	(36,984)	(200,664)
Net (decrease) increase in cash and cash equivalents	(57,704)	288,156
Cash and cash equivalents, beginning of year	2,648,380	2,360,224
Cash and cash equivalents, end of year	$ 2,590,676	2,648,380

See accompanying notes to financial statements.

(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.

(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, 1999 and 1998 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, 1999 and 1998 was $213,115 and $233,549, 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.

(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) Lease Commitments

The Corporation is obligated under an operating lease for the rental of office space which expires in September, 2006. Rent expense was $346,010 and $345,522 for the years ended December 31, 1999 and 1998, respectively.

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

Year ending December 31:	
2000	$ 347,538
2001	347,538
2002	347,538
2003	347,538
2004	347,538
Thereafter	579,230
	$ 2,316,920

(3) 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 1999 and 1998 was $182,100 and $174,198, respectively.

(4) 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, 1999, cash and cash equivalents consist of $1,952,311 in commercial paper and $696,069 in a repurchase agreement with a bank.

As of December 31, 1998, cash and cash equivalents consist of $2,000,000 in commercial paper and $874,642 in a repurchase agreement with a bank.

Five North Carolina investor-owned utilities comprise 76% and 75% of the Corporation's receivables as of December 31, 1999 and 1998, respectively.

(5) Functional Expenses

Functional expenses consist of the following:

	Year ended December 31, 1999			
	Products/ services	Business development	Corporate support	Total
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	116,062	38,903	24,726	179,691
	$ 2,765,507	832,148	761,643	4,359,298

(5) Functional Expenses, continued

Year ended December 31, 1998

	Products/ services	Business development	Corporate support	Total
Salaries	$ 1,273,625	307,014	245,125	1,825,764
Professional services	382,098	83,246	58,855	524,199
Facilities	375,921	60,953	51,858	488,732
Fringe benefits	273,982	74,442	56,658	405,082
Travel	220,132	102,363	32,673	355,168
Team expenses	178,451	17,840	24,059	220,350
Equipment	92,349	-	74,630	166,979
Other costs	46,932	11,064	41,650	99,646
	$ 2,843,490	656,922	585,508	4,085,920