DOCKET E-100 SUB 37A

NORTH CAROLINA ADVANCED ENERGY CORPORATION
RALEIGH, NORTH CAROLINA

FINANCIAL STATEMENTS AS OF DECEMBER 31, 2022 AND 2021 AND INDEPENDENT AUDITOR'S REPORT

advanced energy

NORTH CAROLINA ADVANCED ENERGY CORPORATION

CONTENTS

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May 31, 2023

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
North Carolina Advanced Energy Corporation

Opinion

We have audited the financial statements of **North Carolina Advanced Energy Corporation**, which comprise the statements of financial position as of December 31, 2022 and 2021 and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of North Carolina Advanced Energy Corporation as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of North Carolina Advanced Energy Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about North Carolina Advanced Energy Corporation's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of North Carolina Advanced Energy Corporation's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about North Carolina Advanced Energy Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

NORTH CAROLINA ADVANCED ENERGY CORPORATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31

ASSETS

		2022		2021
Current Assets				
Cash and Cash Equivalents	**$**	**1,042,154**	$	1,975,164
Short-Term Investments		**375,000**		1,452,000
Accounts Receivable, Net		**1,498,036**		1,370,006
Prepaid Expenses and Other Current Assets		**196,264**		199,189
		3,111,454		4,996,359
Investments		**5,959,239**		4,322,320
Property and Equipment				
Furniture and Fixtures		**218,977**		227,593
Vehicles		**128,700**		66,354
Leasehold Improvements		**775,442**		788,254
Equipment		**1,802,299**		1,699,860
		2,925,418		2,782,061
Accumulated Depreciation		**(2,560,485)**		(2,585,454)
		364,933		196,607
Right-of-Use Assets - Operating Leases		**1,541,150**		-
Total Assets	**$**	**10,976,776**	$	9,515,286

LIABILITIES AND NET ASSETS

		2022		2021
Current Liabilities				
Accounts Payable	**$**	**104,830**	$	89,835
Accrued Expenses		**869,452**		522,232
Current Operating Lease Liability		**357,051**		
		1,331,333		612,067
Operating Lease Liability		**1,184,099**		
Net Assets Without Donor Restrictions				
Unrestricted		**8,461,344**		8,903,219
Total Liabilities and Net Assets	**$**	**10,976,776**	$	9,515,286

See accompanying notes which are an integral part of these financial statements.

NORTH CAROLINA ADVANCED ENERGY CORPORATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS DECEMBER 31

	2022	2021
Unrestricted Revenues		
Member Utility Funding	$ 3,944,470	$ 3,880,522
Government Grants	1,189,244	734,992
Interest	102,057	91,337
Other Revenue	3,133,566	3,882,315
	8,369,337	8,589,166
Operating Expenses		
Advanced Energy Delivery	7,039,774	5,365,965
Corporate Services	1,771,438	2,045,115
	8,811,212	7,411,080
Nonoperating Margins	-	250,000
Changes in Net Assets Without Donor Restrictions	(441,875)	1,428,086
Net Assets Without Donor Restrictions, Beginning	8,903,219	7,475,133
Net Assets Without Donor Restrictions, Ending	$ 8,461,344	$ 8,903,219

See accompanying notes which are an integral part of these financial statements.

NORTH CAROLINA ADVANCED ENERGY CORPORATION
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31

2022	**Advanced Energy Delivery**	**Corporate Services**	**Total**
Salaries	**$ 3,200,477**	**$ 776,162**	**$ 3,976,639**
Fringe Benefits	**1,353,477**	**328,238**	**1,681,715**
Rent	**317,854**	**79,465**	**397,319**
Depreciation and Vehicle Leases	**44,704**	**63,293**	**107,997**
Insurance and Property Taxes	**61,161**	**15,290**	**76,451**
Internet Services	**74,530**	**18,632**	**93,162**
Office Supplies	**11,721**	**2,930**	**14,651**
Storage Fees	**710**	**178**	**888**
Postage	**1,083**	**271**	**1,354**
Parking Permits	**25,492**	**6,373**	**31,865**
Cell Phone Allowance	**23,596**	**5,898**	**29,494**
Equipment Maintenance	**6,330**	**1,583**	**7,913**
Bank and Payroll Fees	**-**	**25,481**	**25,481**
Professional Services	**1,387,318**	**307,130**	**1,694,448**
Travel and Meetings	**315,045**	**118,297**	**433,342**
Team Expenses	**216,276**	**22,217**	**238,493**
Total Expenses	**$ 7,039,774**	**$ 1,771,438**	**$ 8,811,212**

2021	Advanced Energy Delivery	Corporate Services	Total
Salaries	$ 2,513,758	$ 953,379	$ 3,467,137
Fringe Benefits	1,190,570	451,541	1,642,111
Rent	252,863	63,215	316,078
Depreciation and Vehicle Leases	34,463	44,959	79,422
Insurance and Property Taxes	64,260	16,065	80,325
Telephone	2,278	570	2,848
Internet Services	76,942	19,235	96,177
Office Supplies	7,165	1,791	8,956
Storage Fees	625	156	781
Postage	2,062	515	2,577
Parking Permits	7,639	1,910	9,549
Cell Phone Allowance	22,651	5,663	28,314
Equipment Maintenance	10,386	2,596	12,982
Bank and Payroll Fees	-	22,811	22,811
Professional Services	336,031	309,736	645,767
Enhancing Electric Co-op Rebate Program	380,217	-	380,217
Housing System Upgrades and Audits	244,958	-	244,958
Travel and Meetings	97,847	122,277	220,124
Team Expenses	121,250	28,696	149,946
Total Expenses	$ 5,365,965	$ 2,045,115	$ 7,411,080

See accompanying notes which are an integral part of these financial statements.

NORTH CAROLINA ADVANCED ENERGY CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31

	2022	2021
Cash Flows Provided (Used) by Operating Activities		
Changes in Net Assets Without Donor Restrictions	**$ (441,875)**	$ 1,428,086
Adjustments to Reconcile Changes in Net Assets Without Donor Restrictions to Net Cash Provided (Used) by Operating Activities		
Depreciation	**104,824**	71,809
Amortization of Right-of-Use Assets	**307,739**	
Forgiveness of PPP Long-Term Debt	**-**	(250,000)
Change In		
Accounts Receivable	**(128,030)**	18,712
Prepaid Expenses and Other Current Assets	**2,925**	(51,011)
Accounts Payable	**14,995**	36,160
Accrued Expenses	**347,220**	6,901
Operating Lease Liability	**(307,739)**	-
	(99,941)	1,260,657
Cash Flows Provided (Used) by Investing Activities		
Purchase of Fixed Assets	**(273,150)**	(128,073)
Investments	**(559,919)**	(953,829)
	(833,069)	(1,081,902)
Net Increase (Decrease) in Cash and Cash Equivalents	**(933,010)**	178,755
Cash and Cash Equivalents, Beginning	**1,975,164**	1,796,409
Cash and Cash Equivalents, Ending	**$ 1,042,154**	$ 1,975,164
Non Cash Disclosures		
Right-of-Uses Assets Obtained in Exchange for Operating Lease Liability	**$ 1,848,889**	$ -

See accompanying notes which are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

(1) Organization and Nature of Activities

North Carolina Advanced Energy Corporation (the Corporation) is a nonprofit energy engineering firm headquartered in Raleigh, North Carolina. The Corporation works with electric utilities; state, federal and local governments; and a variety of public and private organizations in the residential, commercial and industrial, solar, motors and drives, and electric transportation markets. The customized services include investigative research, testing, training, consulting, and program design.

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 50 percent of the Corporation's funding is derived from 3 North Carolina electric utilities and 26 of the state's electric cooperatives. Should the electric utilities and the North Carolina Utilities Commission (the Commission) decide that collecting these funds is no longer in the utilities' interest or in the interest of the utilities' customers, then this action could have a material adverse effect on the Corporation's operating results.

Advanced Energy Delivery

The Corporation's delivery team develops products and services and delivers them to serve the customers of the Corporation's member utilities, as well as other clients nationally. The team's work impacts the following markets: commercial, industrial, residential, renewable energy, grid modernization, and electric transportation. The board of directors is regularly informed of the team's activities and approves the Corporation's business plan.

Corporate Services

Corporate services consist of corporate planning and services including accounting, contracts, personnel, office functions, and information services. The corporate services personnel also provide corporate-level management and specialized support for the Corporation.

(2) Summary of Significant Accounting Policies

Accounting policies and reporting policies of the Corporation conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and prevailing practices within the industry.

(2) Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less.

Short-Term Investments

Short-term investments include certificates of deposit with original maturities greater than three months and remaining maturities less than one year.

Investments

Investments include certificates of deposit with remaining maturities greater than one year and annuity investments. Certificates of deposit and annuity investments are recorded at cost.

Receivables

Receivables consist of amounts due from customers related to services provided. 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 through the bad debt allowance. Subsequent recoveries of amounts previously written off are credited directly to earnings. No bad debt allowance was considered necessary at December 31, 2022 and 2021.

Property and Equipment

Property and equipment are recorded at cost. Assets are capitalized if they have a useful life longer than one year and have a cost of $1,000 or greater. Depreciation expense is computed on a straight-line basis over the estimated useful lives of the assets ranging from three to ten years. The cost and related depreciation of retired or disposed equipment are eliminated from the accounts, with the resulting gains or losses included in operations.

Basis of Presentation

U.S. GAAP requires the Corporation to report its financial position and activities according to two classes of net assets:

- Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor restrictions. Donor-imposed restrictions are shown as an increase in net assets without donor restrictions if the restrictions expire, this is when a stipulated time-restriction ends or purpose restriction is accomplished in the reporting period in which the revenue is recognized.

- Net Assets With Donor Restrictions - Net assets subject to donor-imposed restrictions. Donor-imposed restrictions are released when a restriction expires, that is when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. The Corporation has no net assets with donor restrictions.

Revenue Recognition

Member utility funding is from investor-owned utilities regulated by the Commission and other in-state member organizations. Funding from investor-owned utilities 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 percent of the amount authorized by the Commission for regulated utilities. Revenue from member utility funding is recognized as billed.

Revenue from government grants is recognized when either: (1) expenses are incurred under the grants and are billed on a reimbursement basis, or (2) milestones or tasks have been completed and billed according to the corresponding payment schedule for fixed-price contracts.

Other revenue is generated from contracts with customers. The Corporation recognizes revenue when it satisfies a performance obligation by transferring control over a service to the customer. The Corporation recognizes revenue from consulting services, training, and seminars once the services are rendered to the customer. Revenues are recognized and billed on a monthly basis.

Advertising Costs

The Corporation expenses advertising costs as incurred. Advertising expense for the years ended December 31, 2022 and 2021 totaled $1,247 and $673, respectively.

Income Taxes

The Corporation is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code and is therefore exempt from federal and state income taxes. Income generated by activities that would be considered unrelated to the Corporation's mission would be subject to tax which, if incurred, would be recognized as a current expense. No such tax has been recognized for the years ended December 31, 2022 and 2021.

The Corporation accounts for income taxes in accordance with U.S. GAAP. These standards include provisions for accounting for uncertainty in income taxes. The Corporation is not aware of any tax position that would require disclosure. The Corporation's federal information tax returns for calendar year 2019 and after are subject to examination by the Internal Revenue Service.

(2) Summary of Significant Accounting Policies (Continued)

Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributable to one or more programs or supporting functions of the Corporation. Those expenses include facilities and fringe benefits. Facilities includes rent, depreciation, insurance, property taxes, and other costs and are allocated based on the number of Corporation employees in relation to total employees. Fringe benefits are allocated based on costs in relation to total salaries.

Recently Adopted Accounting Pronouncement - Leases

In February 2016, the Financial Accounting Standards Board (FASB) issued guidance *ASC 842, Leases* to increase transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Company adopted the standard effective January 1, 2022, using the optional transition method to apply the new lease guidance as of January 1, 2022, rather than as of the earliest period presented. The Company has elected the practical expedient to use the risk-free rate as its discount rate for all leases.

The Company elected the available practical expedients to account for existing capital leases and operating leases as finance leases and operating leases, respectively, under the new guidance without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of capital leases or operating lease would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct cost in the new guidance at lease commencement.

On January 1, 2022, the Company recognized a right-of-use asset and lease liability of $1,848,889, which represents the present value of the remaining operating lease payments of $1,962,270, discounted using a weighted average risk-free rate of interest of 2.36 percent. There were no material unamortized initial direct costs to be recorded upon adoption.

The lease standard had a material impact on the Company's balance sheet as of December 31, 2022 but did not have an impact on the statement of income or statement of cash flows for the year then ended. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases.

(3) Accounts Receivable

Accounts receivable related to contracts with customers consist of the following as of December 31:

	2022	2021	2020
Receivables			
Customers	**$ 1,498,036**	$ 1,370,006	$ 1,388,718
Total Receivables	**$ 1,498,036**	$ 1,370,006	$ 1,388,718

(4) Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date are comprised of the following:

Cash and Cash Equivalents	$ 1,042,154
Short-Term Investments	375,000
Accounts Receivable	1,498,036
	$ 2,915,190

As part of the Corporation's investment policy, the Corporation invests cash in excess of daily requirements in certificates of deposit, which are considered by the Corporation to be a safe and predictable option for investing. As part of the Corporation's investment policy, excess cash over $1,000,000 can be placed in Federal Deposit Insurance Corporation (FDIC) insured certificates of deposit and North Carolina Insurance Guarantee Association (NCIGA) annuities.

The Corporation considers $1,000,000 to be sufficient cash flow to meet obligations should there be delays in payment from significant customers, including North Carolina investor-owned utilities and electric cooperatives.

(5) Investments

Investments consist of the following as of December 31:

	2022	2021
Certificates of Deposit	**$ 4,404,000**	$ 2,791,000
Annuities	**1,555,239**	1,531,320
	$ 5,959,239	$ 4,322,320

(6) Long-Term Debt

On April 30, 2020, the Corporation qualified for and received a loan pursuant to the Paycheck Protection Program (PPP), a program implemented by the U.S. Small Business Administration (SBA) under the CARES Act, from a qualified lender (PPP Lender), for in the amount of $783,825 (PPP Loan). The PPP Loan bears interest at a fixed rate of 1 percent per annum, with the first six months of interest deferred, has a term of two years, and is unsecured and guaranteed by the SBA. The principal amount of the PPP Loan is subject to forgiveness under the PPP, upon the Corporation's request, to the extent that the PPP Loan proceeds are used to pay expenses permitted by the PPP, including payroll costs, covered rent and interest, and covered utility payments incurred by the Corporation. On May 14, 2020, the Corporation paid $533,825 on the principal balance of the PPP loan.

The Corporation has accounted for the PPP Loan under the debt model as provided for under *ASC 470*. On May 12, 2021, the Corporation received notification from the PPP Lender that full forgiveness of principal in the amount of $250,000 was approved by the SBA. As such, for the year ended December 31, 2021, the $250,000 has been recorded as nonoperating margins on the statements of activities and changes in net assets and is a non-cash financing activity on the statements of cash flows.

(7) Lease Commitments

The Company leases certain facilities under noncancelable operating lease agreements expiring at various dates through December 2026. Generally, the Company is required to pay executory costs such as property taxes, maintenance, and insurance. At December 31, 2022, operating lease cost was $401,126. The Company elected to use the practical expedient risk-free rate as its discount rate for all leases. The weighted average discount rate utilized was a risk-free rate of 2.36 percent. The weighted average remaining lease terms (in years) is 2.36.

Year	Amount
2023	$ 388,812
2024	398,538
2025	408,495
2026	418,708
	$ 1,614,553

(8) 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 base wages. Employees become 100 percent vested in the Corporation's contribution concurrent with meeting the eligibility requirements. Retirement plan expense for the years ended December 31, 2022 and 2021 was $224,886 and $199,011, respectively.

(9) Related Parties

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 utility 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 members to adopt. The Corporation historically provides contributions for marketing and administration operations to NCGP each year based on NCGP's need and at the determination of the board of directors.

During 2022 and 2021, the Corporation charged NCGP for services provided by its staff and use of facilities in the amount of $693,452 and $672,502, respectively. As of December 31, 2022 and 2021, the Corporation was due $29,621 and $73,112, respectively, from NCGP.

During 2022 and 2021, some accounting services were provided by an outside vendor who provides similar services to electric cooperatives in North Carolina. The president of the Corporation has a seat on the board of directors of this vendor, as do leaders from the other cooperatives. If the vendor recognizes a profit at year end, the profits are distributed back to the organizations that utilize the vendor. The Corporation paid $35,313 and $41,394 to the vendor during the years ended December 31, 2022 and 2021, respectively. At December 31, 2022 and 2021, the Corporation owed the vendor $3,052 and $3,656, respectively.

(10) Nonoperating Margins

Nonoperating margins consist of $250,000 of PPP Loan forgiveness for the year ended December 31, 2021.

(11) Concentrations of Credit Risk

The Corporation maintains bank accounts at local banks. Accounts at the institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. Cash at these institutions exceeded federally insured limits. The amount in excess of the FDIC limit totaled $395,704 at December 31, 2022.

The Corporation maintains annuity accounts at local banks. Accounts at the institutions are insured by North Carolina Insurance Guaranty Association (NCIGA) up to $300,000. Cash at these institutions exceeded federally insured limits. The amount in excess of the NCIGA limit totaled $21,605 at December 31, 2022.

North Carolina investor-owned utilities and electric cooperatives comprise 47 percent of the Corporation's 2022 revenue and 37 percent of receivables as of December 31, 2022.

(12) Subsequent Events

In preparing these financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through May 31, 2023, the date the financial statements were available to be issued.

McNair McLemore Middlebrooks & Co
Certified Public Accountants

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May 31, 2023

MATTERS TO BE COMMUNICATED THOSE CHARGED WITH GOVERNANCE

The Board of Directors
North Carolina Advanced Energy Corporation

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of North Carolina Advanced Energy Corporation (the Corporation) solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm have complied with all relevant ethical requirements regarding independence.

As described in our engagement letter, we perform certain non-attest services for the Corporation. To eliminate the threat to independence, management has accepted responsibility for these services as documented in the management representation letter. Additionally, an individual from our quality control department, not involved in the audit, performs a secondary review of the financial statements.

Significant Risks Identified

We have identified the following significant risks:

- Management override of controls

Management may override controls to intentionally misstate the nature and timing of revenue or other transactions by (1) recording fictitious business events or transactions or changing the timing of recognition of legitimate transactions, particularly those recorded close to the end of an accounting period; (2) establishing or reversing reserves to manipulate results, including intentionally biasing assumptions and judgments used to estimate account balances; and (3) altering records and terms related to significant or unusual transactions. Management override of controls is a presumed fraud risk in all audits performed under auditing standards generally accepted in the United States of America.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Corporation are outlined in Note 2 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the year ended December 31, 2021.

No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive estimates affecting the financial statements are:

- Useful lives of property and equipment
- Expense Accruals
- Reserve for uncollectible accounts

Management's estimate of the useful lives of property and equipment is based on industry guidelines. We evaluated the key factors and assumptions used to develop management's estimates in determining that they are reasonable in relation to the financial statements as a whole.

Management's estimate of expense accruals is based on expenses incurred, anticipated payments, and historic trends. We evaluated the key factors and assumptions used to develop management's estimates in determining that they are reasonable in relation to the consolidated financial statements as a whole.

Management’s estimate of reserve for uncollectible accounts is based on historic revenues, historic collection rates, and an analysis of the collectability of individual account balances. We evaluated the key factors and assumptions used to develop management’s estimates in determining that they are reasonable in relation to the consolidated financial statements as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Corporation’s financial statements relate to the following:

- Accounts Receivable (Note 3).

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management related to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards also require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. There were no significant uncorrected misstatements, material, or immaterial.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of audit procedures. We did not identify any misstatements as a result of our procedures that were material, either individually or in the aggregate, to the financial statements as a whole.

Disagreements with Management

For purposes of this communication, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Corporation’s financial statements or the auditor’s report. No such disagreements arose during the course of our audit.

Representations Requested from Management

We have requested certain representations from management, which are included in the management representation letter dated May 31, 2023.

Management’s Consultation with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Corporation, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Corporation auditors.

This report is intended solely for the information and use of the board of directors and management of the Corporation and is not intended to be and should not be used by anyone other than these specified parties.