

BIOFUELS CENTER OF NORTH CAROLINA, INC.

FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

BIOFUELS CENTER OF NORTH CAROLINA, INC.
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

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BOYCE, FURR AND COMPANY, LLP
CERTIFIED PUBLIC ACCOUNTANTS
RALEIGH, NORTH CAROLINA

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Biofuels Center of North Carolina, Inc.
Oxford, North Carolina

We have audited the accompanying statements of financial position of Biofuels Center of North Carolina Inc. (Center), a nonprofit organization, as of June 30, 2010 and 2009, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Center'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 the Center as of June 30, 2010 and 2009, 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 November 4, 2010, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of state awards is presented for purposes of additional analysis 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 to the basic financial statements taken as a whole.

Boyce, June & Company, LLP

November 4, 2010

BIOFUELS CENTER OF NORTH CAROLINA, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30

	2010	2009
ASSETS		
Cash	\$ 2,084,072	\$ 4,729,356
Prepaid expenses	10,360	20,270
Sales tax receivable	17,329	16,342
Grants receivable	49,630	50,000
Notes receivable (net)	191,659	494,771
Other assets	1,538	1,538
	<u>2,354,588</u>	<u>5,312,277</u>
Property and equipment		
Furniture and equipment	254,872	241,430
Software	16,143	16,143
Total	<u>271,015</u>	<u>257,573</u>
Less accumulated depreciation	(154,366)	(91,254)
Total net property and equipment	<u>116,649</u>	<u>166,319</u>
TOTAL ASSETS	<u><u>\$ 2,471,237</u></u>	<u><u>\$ 5,478,596</u></u>
 LIABILITIES AND NET ASSETS		
Accounts payable	\$ 138,041	\$ 82,332
Accrued vacation	34,526	22,916
Grants payable	1,505,080	2,955,500
Total liabilities	<u>1,677,647</u>	<u>3,060,748</u>
Net assets		
Unrestricted		
Investment in fixed assets	116,649	166,319
Operating	676,941	2,036,529
Total unrestricted net assets	<u>793,590</u>	<u>2,202,848</u>
Temporarily restricted	<u>-</u>	<u>215,000</u>
Total net assets	<u>793,590</u>	<u>2,417,848</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 2,471,237</u></u>	<u><u>\$ 5,478,596</u></u>

BIOFUELS CENTER OF NORTH CAROLINA, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30

	<u>2010</u>	<u>2009</u>
Unrestricted net assets		
Unrestricted revenues		
Governmental support		
North Carolina Department of Commerce	\$ 950,000	\$ 4,550,000
In-kind contributions	59,850	59,850
Interest income	26,149	43,689
	<u>1,035,999</u>	<u>4,653,539</u>
Total unrestricted revenues		
Net assets released from restrictions		
Restrictions satisfied by Strategic Crops Initiative payments	<u>214,631</u>	<u>35,000</u>
Total unrestricted revenues and other support	<u>1,250,630</u>	<u>4,688,539</u>
Expenses		
Program services	2,060,251	4,361,220
Administrative	599,637	259,263
Total expenses	<u>2,659,888</u>	<u>4,620,483</u>
Increase (decrease) in unrestricted net assets	<u>(1,409,258)</u>	<u>68,056</u>
Temporarily restricted net assets		
Contributions		
Golden Leaf Foundation - Strategic Crops Initiative	(369)	250,000
Net assets released from restrictions		
Restrictions satisfied by Strategic Crops Initiative payments	<u>(214,631)</u>	<u>(35,000)</u>
Increase (decrease) in temporarily restricted net assets	<u>(215,000)</u>	<u>215,000</u>
Increase (decrease) in net assets	(1,624,258)	283,056
Net assets - beginning of period	<u>2,417,848</u>	<u>2,134,792</u>
Net assets - end of period	<u>\$ 793,590</u>	<u>\$ 2,417,848</u>

See accompanying notes and accountant's report.

BIOFUELS CENTER OF NORTH CAROLINA, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30

	2010		
	Program	Administrative	Total
Grants and initiatives	\$ 387,846	\$ -	\$ 387,846
Salaries and benefits	901,326	448,760	1,350,086
Conferences and events	46,157	-	46,157
Marketing and communications	72,623	-	72,623
Travel	60,332	6,704	67,036
Insurance	1,410	6,377	7,787
Legal	79,465	11,906	91,371
Professional fees	-	20,018	20,018
Consulting	35,180	-	35,180
Office expense	47,221	58,276	105,497
Contract labor	38,766	-	38,766
Rent expense	43,738	20,050	63,788
Technology	7,270	3,662	10,932
Bad debt	287,489	-	287,489
Miscellaneous	9,459	2,742	12,201
Total expenses before depreciation	<u>2,018,282</u>	<u>578,495</u>	<u>2,596,777</u>
Depreciation of property and equipment	<u>41,969</u>	<u>21,142</u>	<u>63,111</u>
Total expenses	<u><u>\$ 2,060,251</u></u>	<u><u>\$ 599,637</u></u>	<u><u>\$ 2,659,888</u></u>

See accompanying notes and accountant's report.

BIOFUELS CENTER OF NORTH CAROLINA, INC.
 STATEMENTS OF FUNCTIONAL EXPENSES
 FOR THE YEARS ENDED JUNE 30

2009		
Program	Administrative	Total
\$ 2,944,824	\$ -	\$ 2,944,824
881,337	74,557	955,894
40,778	-	40,778
210,071	-	210,071
50,922	5,658	56,580
725	2,780	3,505
77,442	33,189	110,631
-	10,945	10,945
25,060	-	25,060
57,978	55,274	113,252
3,080	3,081	6,161
47,880	11,970	59,850
15,568	1,262	16,830
-	-	-
5,555	288	5,843
4,361,220	199,004	4,560,224
-	60,259	60,259
\$ 4,361,220	\$ 259,263	\$ 4,620,483

BIOFUELS CENTER OF NORTH CAROLINA, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

Note 1 - Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities

Biofuels Center of North Carolina, Inc. ("Center") was organized in July 2007, as a non-profit, non-stock corporation to help the State of North Carolina develop a statewide biofuels economic sector that will employ North Carolina people, diversify and expand the statewide economy, provide economic opportunity in disadvantaged areas, reduce dependence on costly and diminishing energy resources, and enhance national security, through *North Carolina's Strategic Plan for Biofuels Leadership* (the "Biofuels Program").

The Center was funded by state appropriations passed through the Department of Commerce and contributions from the Golden Leaf Foundation.

Summary of Significant Accounting Policies

Basis of Accounting

The accounting records and financial statements are prepared on the accrual basis of accounting. The accrual method records revenue when earned and expenses when incurred. As a result, receivables are recorded as assets, and obligations due are shown as liabilities.

Use of Estimates

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

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All revenues are reported as increases in unrestricted net assets unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (such as donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributed Facilities

The Center occupies buildings owned by the State of North Carolina for which it is not charged rent. In-kind contributions and rent expenses of \$59,850 were recognized in the years ended June 30, 2010 and 2009 for the fair value of the space occupied.

BIOFUELS CENTER OF NORTH CAROLINA, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

Note 1 - Nature of Activities and Summary of Significant Accounting Policies - continued

Summary of Significant Accounting Policies - continued

Income Taxes

The Center is exempt from federal taxation under Section 501(c)(3) of the Internal Revenue Code ("IRC"); therefore, no income taxes are reflected in the financial statements.

Effective July 1, 2009, the Center adopted amendments to Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740, *Income Taxes*, which clarify the accounting for uncertain tax positions recognized in financial statements. At the adoption date and as of June 30, 2010, the Center has no unrecognized tax benefits.

The Center recognizes interest and penalties related to uncertain tax positions as a component of general and administrative expense. As of the date of adoption and as of June 30, 2010, the Center had no accrued interest or penalties related to uncertain tax positions.

The Center has its 2008 tax year open to examination by federal tax and state tax jurisdictions. The Center has not been informed by any tax authorities for any jurisdiction that any of its tax years are under examination as of June 30, 2010.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, all highly liquid investments with an initial maturity of three months or less are considered to be cash equivalents.

Property and Equipment

Purchases of property and equipment of more than \$1,000 are capitalized on the statement of financial position at cost and are depreciated using the straight-line method over their useful lives, which range from 3 to 10 years. Repairs and maintenance not considered renewals or betterments are charged to expense as incurred. Upon sale or retirement, the cost of the assets and the related accumulated depreciation are removed from the accounts and the resulting gain or loss, if any, is included in operations.

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services.

Fair Value Measurements

Effective July 1, 2008, the Company implemented FASB ASC 820, *Fair Value Measurements*. The adoption of FASB ACS 820 had no material impact on our financial position or results of operations.

BIOFUELS CENTER OF NORTH CAROLINA, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

Note 1 - Nature of Activities and Summary of Significant Accounting Policies - continued

Summary of Significant Accounting Policies - continued

Impairment of Long-Lived Assets

Long-lived assets, such as property and equipment, and intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Recoverability of the asset to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for an amount by which the carrying amount of the asset exceeds the fair value of the asset.

Note 2 - Concentration of Credit Risk

Cash consists of an interest bearing checking account with a bank. At June 30, 2010 and 2009, the amount held in this account exceeded the federally insured limits of \$250,000 by \$1,933,544 and \$4,800,948, respectively.

Note 3 – Notes Receivable

The Center supported two development projects in the form of notes as follows:

Subordinated note receivable from Blue Ridge Biofuels, LLC dated June 30, 2008 for \$250,000 with interest of 4% compounded annually, collateralized by equipment. In August 2010 the repayment terms of the loan were modified. Principal and interest will be paid in 83 payments of \$3,417 beginning on January 15, 2011. The outstanding balance as of June 30, 2010 and 2009 was \$250,000 and accrued interest was \$20,400 and \$10,000.

Note receivable from Piedmont Biofuels Industrial, LLC ("Piedmont") dated June 30, 2008 for \$250,000 with interest of 4% compounded annually, collateralized by equipment. The Center will be deemed repaid \$100 for each hour of design consulting services provided by Piedmont staff for the expansion of biofuels or biofuels byproducts in North Carolina. The principal and interest are due and payable on June 30, 2012. The outstanding balance was \$189,760 and \$224,940 and accrued interest was \$18,988 and \$9,831 as of June 30, 2010 and 2009, respectively. Services received in the year ended June 30, 2010 and 2009, which reduced the note receivable by \$35,180 and \$25,060, were reported as consulting in the accompanying statements of activities.

The president of Piedmont joined the Board of the Center in September 2008.

BIOFUELS CENTER OF NORTH CAROLINA, INC.
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

Note 3 – Notes Receivable - continued

Management has considered key factors in establishing an allowance for bad debt on the notes receivable. For the year ended June 30, 2010, an allowance of 60% of the note balances and accrued interest was provided for as follows:

Notes receivable	\$ 439,760
Accrued interest	39,388
Total	479,148
Less allowance	(287,489)
Total	\$ 191,659

Note 4 - Grants Payable

Grants payable consist of amounts awarded, but not paid, to recipients under the Biofuels Program.

The amounts of future grant payables for each of the next two years and in the aggregate as of June 30, 2010 are as follows:

2011	\$ 1,445,612
2012	59,468
	\$ 1,505,080

Note 5 - Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	2010	2009
Strategic Crops Initiative	\$ -	\$ 215,000

Net assets were released from donor restrictions during the years ended June 30, 2010 and 2009 by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

	2010	2009
Strategic Crops Initiative	\$ 214,631	\$ 35,000

BIOFUELS CENTER OF NORTH CAROLINA, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

Note 6 – Reserved Net Assets

In September 2009, the Board of the Center reserved \$167,209 to be carried forward to the 2010-2011 fiscal year. In September 2008, the Board of the Center reserved \$675,000 to be carried forward to the 2009-2010 fiscal year.

Note 7 - Leases

In July 2008, the Center entered into a three-year noncancellable operating lease for a copier requiring monthly payments of \$299 or approximately \$3,600 annually. Rent expense for the year ended June 30, 2010 and 2009 was \$3,582 and \$3,622. Minimum rental payments for the year ended June 30, 2011, total \$3,600.

Note 8 - Retirement Benefits

The Center has a 401(K) plan for employees. The Center contributes 5% of salary starting on the employee's date of hire with 3% vesting immediately and the other 2% vesting on the employee's two-year anniversary. Starting with the second year of employment, the Center will contribute 10% of salary with 3% vesting immediately and 7% vesting on the employee's two-year anniversary. Starting with the third year of employment, the Center will contribute 10% of salary with all 10% vesting immediately. Employees may defer additional amounts through payroll deduction. Retirement benefits for the years ended June 30, 2010 and 2009 totaled \$86,205 and \$47,328, respectively.

Note 9 – Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation.

Note 10 - Subsequent Events

Management of the Center evaluated subsequent events through November 4, 2010, which is the date the financial statements were available to be issued. In August 2010 the Center was awarded a \$4,950,000 appropriation to be passed through the North Carolina Department of Commerce for the fiscal year ending June 30, 2011 and a \$376,250 appropriation under the American Reinvestment and Recovery Act of 2009 to be passed through the North Carolina Department of Commerce State Energy Office. There were no other subsequent events that should be disclosed.

BIOFUELS CENTER OF NORTH CAROLINA, INC.
 SCHEDULE OF EXPENDITURES OF STATE AWARDS
 FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

Note 1 – Basis of Presentation

This schedule includes the state grant activity of Biofuels Center of North Carolina, Inc., and is presented on the accrual basis of accounting.

	2010	2009
State Program		
Department of Commerce		
(Contract No. G20431002909B10)	\$ 1,487,987	\$ 3,062,013
(Contract No. G20431002910B10)	522,252	-
Department of Agriculture and Consumer Services		
(Contract No. ADM-08-021-32-07-GA)	-	1,427,912
Golden Leaf Foundation	214,631	35,000
Total state funds expended	\$ 2,224,870	\$ 4,524,925

BOYCE, FURR AND COMPANY, LLP
CERTIFIED PUBLIC ACCOUNTANTS
RALEIGH, NORTH CAROLINA

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
Biofuels Center of North Carolina, Inc.
Oxford, North Carolina

We have audited the financial statements of the Biofuels Center of North Carolina, Inc. as of and for the years ended June 30, 2010 and 2009, and have issued our report thereon dated November 4, 2010. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting in order to determine 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 Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center'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 misstatements on a timely basis. A material weakness is a deficiency, or 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 the 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 the Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and the applicable state agencies and is not intended to be and should not be used by anyone other than these specified parties.

Bryce. J. & Company, LLP

November 4, 2010