

BIOFUELS CENTER OF NORTH CAROLINA, INC.

FINANCIAL STATEMENTS

JUNE 30, 2013

**BERNARD ROBINSON & COMPANY, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS**

BIOFUELS CENTER OF NORTH CAROLINA, INC.

FOR THE YEAR ENDED JUNE 30, 2013

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Biofuels Center of North Carolina, Inc. (a non-profit corporation) (the "Center"), which comprise the statement of net assets in liquidation as of June 30, 2013, and the related statement of activities and changes in net assets in liquidation, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Center's preparation and fair presentation of the financial statements 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 the Center's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors
Biofuels Center of North Carolina, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets in liquidation of Biofuels Center of North Carolina, Inc. as of June 30, 2013, and the changes in its net assets in liquidation and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of state awards ("supplementary information") is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Basis of Accounting

As described in Note 1, the Center's policy is to prepare its financial statements on the liquidation basis of accounting. Our opinion is not modified with respect to that matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2013, on our consideration of Biofuels Center of North Carolina Inc.'s internal control over financial reporting and on our tests 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 internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Biofuels Center of North Carolina, Inc.'s internal control over financial reporting and compliance.

Bernard Robinson & Company, L.L.P.

December 9, 2013
Raleigh, North Carolina

BIOFUELS CENTER OF NORTH CAROLINA, INC.
STATEMENT OF NET ASSETS IN LIQUIDATION
JUNE 30, 2013

ASSETS

Cash	\$ 4,675,350
Sales tax receivable	196
Note receivable and accrued interest	13,669
Other receivables	<u>112,995</u>
Total assets	<u>4,802,210</u>
Property and equipment	<u>400</u>
TOTAL ASSETS	<u><u>\$ 4,802,610</u></u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 27,139
Accrued liquidation expenses	2,530,448
Accrued vacation	40,930
Grants payable, net	1,256,426
Payable to State of NC	<u>947,667</u>
Total liabilities	<u>4,802,610</u>
Unrestricted net assets	<u>-</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 4,802,610</u></u>

BIOFUELS CENTER OF NORTH CAROLINA, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS IN LIQUIDATION
YEAR ENDED JUNE 30, 2013

Unrestricted revenues:	
Government grants	\$ 4,372,193
In-kind contributions	59,850
Interest and other income	<u>73,221</u>
Total unrestricted revenues	<u>4,505,264</u>
Expenses:	
Program services	3,445,178
Administrative	<u>839,170</u>
Total expenses	<u>4,284,348</u>
Increase in unrestricted net assets before extraordinary item	220,916
Extraordinary item:	
Loss on liquidation	<u>(1,226,859)</u>
Change in net assets in liquidation	<u>(1,005,943)</u>
Net assets - beginning of period	<u>1,005,943</u>
Net assets - end of period	<u><u>\$ -</u></u>

BIOFUELS CENTER OF NORTH CAROLINA, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2013

	<u>Program</u>	<u>Administrative</u>	<u>Total</u>
Biofuels Center Commercialization Grants	\$ 17,258	\$ -	\$ 17,258
Biofuels Center Accelerated Initiatives	361,423	-	361,423
Partner and Project Membership Program	7,260	-	7,260
TVA Grant Program	1,071,672	-	1,071,672
TVA Targeted Projects Program	684,698	-	684,698
Salaries and benefits	941,259	632,000	1,573,259
Conferences and events	24,479	-	24,479
Marketing and communications	86,967	-	86,967
Travel	57,797	14,727	72,524
Insurance	2,202	4,357	6,559
Legal	23,737	24,155	47,892
Professional fees	-	22,329	22,329
Office expense	49,699	52,550	102,249
Contract labor	11,669	-	11,669
Rent expense	36,633	23,217	59,850
Technology	2,160	1,369	3,529
Amortization of discount on grants payable	23,011	-	23,011
Miscellaneous	26,318	53,733	80,051
Total expenses before depreciation	<u>3,428,242</u>	<u>828,437</u>	<u>4,256,679</u>
Depreciation of property and equipment	<u>16,936</u>	<u>10,733</u>	<u>27,669</u>
Total expenses	<u><u>\$ 3,445,178</u></u>	<u><u>\$ 839,170</u></u>	<u><u>\$ 4,284,348</u></u>

BIOFUELS CENTER OF NORTH CAROLINA, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2013

Cash flows from operating activities	
Change in net assets in liquidation	\$ (1,005,943)
Adjustments to reconcile change in net assets in liquidation to net cash provided by operating activities	
Depreciation expense	27,669
(Increase) decrease in:	
Prepaid expenses	6,848
Sales tax receivable	1,026
Other receivables	(92,193)
Notes receivable, net	77,927
Other assets	941
Increase (decrease) in:	
Accounts payable	(25,976)
Accrued vacation	2,141
Grants payable, net	(2,191,242)
Accrued expenses	2,530,449
Payable to Sate of NC	947,667
	<u>279,314</u>
Net cash provided by operating activities	<u>279,314</u>
Cash flows from investing activities	
Purchase of property and equipment	(1,099)
Adjustment to fair value for property and equipment	7,335
	<u>6,236</u>
Net cash provided by investing activities	<u>6,236</u>
Net increase in cash	285,550
Cash - beginning of year	<u>4,389,800</u>
Cash - end of year	<u><u>\$ 4,675,350</u></u>

See Accompanying Notes to Financial Statements.

BIOFUELS CENTER OF NORTH CAROLINA, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

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

Nature of Activities and Plan of Dissolution

Biofuels Center of North Carolina, Inc. (the "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").

Since the Center's inception it has been funded by state appropriations passed through the Departments of Agriculture and Commerce, federal appropriations under the American Reinvestment and Recovery Act of 2009 passed through the North Carolina Department of Commerce State Energy Office, federal appropriations passed through the Department of Energy, and contributions from the Golden Leaf Foundation.

In July 2013, the General Assembly of the State of North Carolina discontinued funding for the Center and the Board adopted a Plan of Dissolution which included the termination of all grant agreements and additional payments, conclusion of all affairs within 90 days of effective date of July 25, 2013, and distribution of all remaining cash and other assets to the State of North Carolina in accordance with the Center's Articles of Incorporation.

Summary of Significant Accounting Policies

Basis of Accounting

The Center has historically prepared their financial statements using the accrual basis of accounting. Due to the imminent liquidation at June 30, 2013, the Center adopted the liquidation basis of accounting which measures its assets and liabilities at the amounts of cash expected in liquidation and reports changes in estimates when they are known.

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

BIOFUELS CENTER OF NORTH CAROLINA, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

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

Summary of Significant Accounting Policies – continued

Revenue Recognition - continued

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, Fixed Assets, and Materials

Donated facilities, fixed assets, and materials received by the Center are recorded at fair value.

The Center received in-kind contributions from the State of North Carolina with a fair value for rental space of \$59,850 for the year ended June 30, 2013.

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.

The Center recognizes unrecognized income tax benefits in accordance with the 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. As of June 30, 2013, management has determined that the Center had 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, 2013, the Center had no accrued interest or penalties related to uncertain tax positions.

The Center has its 2010 through 2012 tax years 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, 2013.

Cash

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.

BIOFUELS CENTER OF NORTH CAROLINA, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

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

Summary of Significant Accounting Policies - continued

Property and Equipment

Prior to adopting the liquidation basis of accounting, purchases of property and equipment of more than \$1,000 were capitalized on the statement of financial position at cost and depreciated using the straight-line method over their useful lives, which ranged from three to ten years. Repairs and maintenance not considered renewals or betterments were charged to expense as incurred. With the adoption of the liquidation basis of accounting, the assets held at June 30, 2013 were written down to estimated sales proceeds.

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 and changes in net assets in liquidation. Accordingly, certain costs have been allocated among the programs and supporting services.

Note 2 - Concentration of Credit Risk

Cash consists of an interest bearing checking account with a bank. At June 30, 2013, the amount held in this account exceeded the federally insured limits of \$250,000 by \$4,452,781.

Note 3 - Grants Payable

Prior to adopting the liquidation basis of accounting, unconditional grants were charged against operations when authorized by the board of directors. The actual payment of the grants did not always occur in the year of authorization. Grants expected to be paid beyond one year were discounted at a reasonable rate determined by management to be 2%. Amortization of the present value discount was recorded as grant expense.

The Center's Plan of Dissolution required the termination of all grant agreements and additional payments by the Center. The grants payable balance of \$1,256,426 as of June 30, 2013 has been adjusted to reflect the final payments due on the terminated grants, which were paid out as of September 30, 2013, net of a discount of approximately \$6,000 (imputed at 2%).

BIOFUELS CENTER OF NORTH CAROLINA, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

Note 4 – Grants Revenue

Grants revenue consists of the following for the year ended June 30, 2013:

State grant revenue:	
Department of Commerce 2013 appropriation	\$2,063,035
Department of Commerce TVA 2013 appropriation	<u>2,240,000</u>
Subtotal	<u>4,303,035</u>
 Grant refunds received by June 30, 2013:	
Department of Commerce 2011 appropriation	20,972
Department of Commerce 2009 appropriation	<u>48,186</u>
Subtotal	<u>69,158</u>
 Total	 <u><u>\$4,372,193</u></u>

Note 5 – Lease Commitments

Leases

The Center leases equipment under operating leases expiring in 2014. Future minimum lease payments required under the leases total \$5,159. With the dissolution of the Center, all leases will be paid in full, including any applicable taxes or early termination fees.

Contractual Obligations

In July 2012, the Center executed agreements with the State and North Carolina State University (NCSU) which allowed the Center to use certain property owned by the State and allocated to NCSU to conduct biofuels research, biofuels demonstrations, and to hold events. For the period July 1, 2012 through March 31, 2017, the Center was obligated to pay the unfunded annual budget of the property with a minimum annual payment of \$160,000 and a maximum of \$200,000, due in quarterly installments.

As of June 30, 2013, the Center notified the State and NCSU of the imminent dissolution of the Center and the lease was terminated as of September 30, 2013. The Center agreed to pay \$44,500 as its share of the NCSU expenditures for the three months ending September 30, 2013. NCSU requested that the perennial species remain at the farm; therefore, the Center will not incur additional costs to remove the species.

BIOFUELS CENTER OF NORTH CAROLINA, INC.
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2013

Note 6 - 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 contributes 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 contributes 10% of salary with all 10% vesting immediately. Employees may defer additional amounts through payroll deduction. Retirement benefits for the years ended June 30, 2013 totaled \$115,405.

Due to the closing of the Center, the plan terminated October 31, 2013. Participants had the option of a cash distribution (less any applicable fees and penalties), opening of a new IRA with a service provider, or rolling the funds to another IRA. Funds will be available for withdrawal during the middle of November 2013. Upon termination vesting will also be accelerated as provided in the plan document.

Note 7 – Loss on Liquidation

The loss on liquidation is comprised of the following:

Grant termination refunds	\$ 2,315,161
Interest and miscellaneous income	2,254
Prepaid adjustment	(5,622)
Fixed asset adjustment	(7,335)
Note receivable write off	(45,194)
Grant payable discount reduction	(5,753)
Contract termination fees	(59,315)
Contractual services	(50,551)
Severance pay and benefits	(108,824)
Grants transferred to NC Dept of Agriculture	(1,626,384)
Operating expenses during liquidation	(687,629)
Payable to the State	<u>(947,667)</u>
Loss on liquidation	<u>\$ (1,226,859)</u>

Note 8 – Subsequent Events

Management of the Center evaluated subsequent events through December 9, 2013, which is the date the financial statements were available to be issued. As outlined in the Plan of Dissolution, the Center's operations ceased October 31, 2013. Upon completion of the financial audit, the Center plans to file its Articles of Dissolution.

COMPLIANCE SECTION

BIOFUELS CENTER OF NORTH CAROLINA, INC.
 SCHEDULE OF EXPENDITURES OF STATE AWARDS
 FOR THE YEAR ENDED JUNE 30, 2013

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.

<u>North Carolina Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>State Expenditures</u>
North Carolina Department of Commerce:	
Contract No. G20431002909BIO - grants refunded*	\$ (48,186)
Contract No. G20431002911BIO - grants refunded*	(20,972)
Contract No. G20431002912BIO	679,763
Contract No. 40042	1,634,338
Contract No. Biofuels 12	<u>1,787,181</u>
Total expenditures of state awards	<u>\$ 4,032,124</u>

*Grants Refunded

In a few instances, the entire grant awards were not needed to complete the projects. In July 2013, all grants were terminated. Under a plan of dissolution adopted by the Center after the State of North Carolina discontinued funding, all active grant programs reported final expenditures through June 30, 2013, and any unused funds will be distributed to the State.

**See Note 4 for State grants received by the Center

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.
Raleigh, North Carolina

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Biofuels Center of North Carolina, Inc. ("Center") (a non-profit corporation) which comprise the statement of net assets in liquidation as of June 30, 2013, and the related statements of activities and changes in net assets in liquidation, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 9, 2013.

Internal Control over Financial Reporting

In planning and performing our audits, we considered the Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

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 and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a 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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses; however, material weaknesses may exist that have not been identified.

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 audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards*.

Purpose of the Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Center's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bernard Robinson & Company, L.L.P.

December 9, 2013
Raleigh, North Carolina