

### CERTIFICATION REGARDING LOBBYING

Applicants should also review the instructions for certification included in the regulations before completing this form. Signature on this form provides for compliance with certification requirements under 15 CFR Part 28, "New Restrictions on Lobbying." The certifications shall be treated as a material representation of fact upon which reliance will be placed when the Department of Commerce determines to award the covered transaction, grant, or cooperative agreement.

#### LOBBYING

As required by Section 1352, Title 31 of the U.S. Code, and implemented at 15 CFR Part 28, for persons entering into a grant, cooperative agreement or contract over \$100,000 or a loan or loan guarantee over \$150,000 as defined at 15 CFR Part 28, Sections 28.105 and 28.110, the applicant certifies that to the best of his or her knowledge and belief, that:

- (1) No Federal appropriated funds have been paid or will be paid, by or on behalf of the undersigned, to any person for influencing or attempting to influence an officer or employee of any agency, a Member of Congress in connection with the awarding of any Federal contract, the making of any Federal grant, the making of any Federal loan, the entering into of any cooperative agreement, and the extension, continuation, renewal, amendment, or modification of any Federal contract, grant, loan, or cooperative agreement.
- (2) If any funds other than Federal appropriated funds have been paid or will be paid to any person for influencing or attempting to influence an officer or employee of any agency, a Member of Congress, an officer or employee of Congress, or an employee of a member of Congress in connection with this Federal contract, grant, loan, or cooperative agreement, the undersigned shall complete and submit Standard Form-LLL, "Disclosure Form to Report Lobbying," in accordance with its instructions.
- (3) The undersigned shall require that the language of this certification be included in the award documents for all subawards at all tiers (including subcontracts, subgrants, and contracts under grants, loans, and cooperative agreements) and that all subrecipients shall certify and disclose accordingly.

This certification is a material representation of fact upon which reliance was placed when this transaction was made or entered into. Submission of this certification is a prerequisite for making or entering into this transaction imposed by section 1352, title 31, U.S. Code. Any person who fails to file the required certification shall be subject to a civil penalty of not less than \$10,000 and not more than \$100,000 for each such failure occurring on or before October 23, 1996, and of not less than \$11,000 and not more than \$110,000 for each such failure occurring after October 23, 1996.


#### Statement for Loan Guarantees and Loan Insurance

The undersigned states, to the best of his or her knowledge and belief, that:

In any funds have been paid or will be paid to any person for influencing or attempting to influence an officer or employee of any agency, a Member of Congress, an officer or employee of Congress, or an employee of a Member of Congress in connection with this commitment providing for the United States to insure or guarantee a loan, the undersigned shall complete and submit Standard Form-LLL, "Disclosure Form to Report Lobbying," in accordance with its instructions.

Submission of this statement is a prerequisite for making or entering into this transaction imposed by section 1352, title 31, U.S. Code. Any person who fails to file the required statement shall be subject to a civil penalty of not less than \$10,000 and not more than \$100,000 for each such failure occurring on or before October 23, 1996, and of not less than \$11,000 and not more than \$110,000 for each such failure occurring after October 23, 1996.

**As the duly authorized representative of the applicant, I hereby certify that the applicant will comply with the above applicable certification.**

NAME OF APPLICANT	AWARD NUMBER AND/OR PROJECT NAME
MCNC	EG ID 4218 N.C. Rural Broadband Initiative
PRINTED NAME AND TITLE OF AUTHORIZED REPRESENTATIVE	
Joseph Freddoso, President and CEO	
SIGNATURE	DATE
	5/12/10

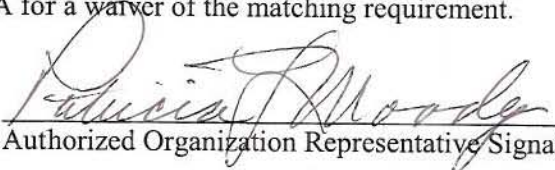
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**U.S. Department of Commerce**  
**Broadband Technology Opportunities Program**  
**Authentication and Certifications**

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1. I certify that I am the duly Authorized Organization Representative (AOR) of the applicant organization, and that I have been authorized to submit the attached application on its behalf.
2. I certify that I have examined this application, that all of the information and responses in this application, including certifications, and forms submitted, all of which are part of this grant application, are material representations of fact and true and correct to the best of my knowledge, that the entity(ies) that is requesting grant funding pursuant to this application and any subgrantees and subcontractors will comply with the terms, conditions, purposes, and federal requirements of the grant program; that no kickbacks were paid to anyone; and that a false, fictitious, or fraudulent statements or claims on this application are grounds for denial or termination of a grant award, and/or possible punishment by a fine or imprisonment as provided in 18 U.S.C. §1001 and civil violations of the False Claims Act.
3. I certify that the entity(ies) I represent have and will comply with all applicable federal, state, and local laws, rules, regulations, ordinances, codes, orders and programmatic rules and requirements relating to the project. I acknowledge that failure to do so may result in rejection or deobligation of the grant or loan award. I acknowledge that failure to comply with all federal and program rules could result in civil or criminal prosecution by the appropriate law enforcement authorities.
4. I certify that the entity(ies) I represent has and will comply with all applicable administrative and federal statutory, regulatory, and policy requirements set forth in the Department of Commerce Pre-Award Notification Requirements for Grants and Cooperative Agreements ("DOC Pre-Award Notification"), published in the Federal Register on February 11, 2008 (73 FR 7696), as amended; DOC Financial Assistance Standard Terms and Conditions (Mar. 8, 2009); the Department of Commerce American Recovery and Reinvestment Act Award Terms (Apr. 9, 2009); and any Special Award Terms and Conditions that are included by the Grants Officer in the award.
5. I certify that any funds awarded to the entity(ies) I represent as a result of this application will not result in any unjust enrichment of such entity(ies) or duplicate any funds such entity(ies) receive under federal universal service support programs administered by the Universal Service Administrative Corporation (USAC).
6. I certify that the entity(ies) I represent has secured access to pay the 20% of total project cost or has petitioned the Assistant Secretary of NTIA for a waiver of the matching requirement.

3-3-10  
Date

  
Authorized Organization Representative Signature

Patricia L. Moody  
Print Name

Chief Financial Officer, Treasurer, Secretary  
Title

**MCNC AND AFFILIATE**

**Combined Financial Statements**

**June 30, 2009 and 2008**

**(With Independent Auditors' Report Thereon)**

**BATCHELOR, TILLERY & ROBERTS, LLP**

CERTIFIED PUBLIC ACCOUNTANTS

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**Independent Auditors' Report**

The Boards of Directors  
MCNC and Affiliate:

We have audited the accompanying combined statements of financial position of MCNC and Affiliate (the "Company") as of June 30, 2009 and 2008, and the related combined statements of activities and cash flows for the years then ended. These combined financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 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 Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the 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 combined financial position of MCNC and Affiliate as of June 30, 2009 and 2008, and the combined changes in its net assets and its combined cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Batchelor, Tillery & Roberts, LLP*

November 13, 2009

MCNC AND AFFILIATE

Combined Statements of Financial Position

June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 1,781,100	2,002,882
Accounts receivable, net	8,012,207	9,828,939
Notes receivable, net of long-term portion	333,333	333,333
Prepaid expenses and other current assets	<u>1,860,925</u>	<u>997,809</u>
Total current assets	<u>11,987,565</u>	<u>13,162,963</u>
Investment in MCNC Enterprise Fund, L.P.	<u>3,321,281</u>	<u>4,496,684</u>
Investments	<u>42,509,507</u>	<u>53,199,428</u>
Building, equipment and furniture:		
Building, equipment and furniture	26,195,615	20,687,349
Less accumulated depreciation and amortization	<u>(17,086,560)</u>	<u>(14,566,758)</u>
Building, equipment and furniture, net	<u>9,109,055</u>	<u>6,120,591</u>
Notes receivable, long-term	-	333,333
Other assets, net	<u>786,832</u>	<u>681,057</u>
	<u>\$ 67,714,240</u>	<u>77,994,056</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable and accrued expenses	1,127,894	3,130,672
Line of credit	5,135,000	-
Deferred revenue	<u>11,448,131</u>	<u>12,489,134</u>
Total current liabilities	<u>17,711,025</u>	<u>15,619,806</u>
Commitments		
Unrestricted net assets	<u>50,003,215</u>	<u>62,374,250</u>
	<u>\$ 67,714,240</u>	<u>77,994,056</u>

See accompanying notes to combined financial statements.

MCNC AND AFFILIATE

Combined Statements of Activities

Years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Revenues-		
internet, data center services and research	\$ <u>15,734,825</u>	<u>12,113,970</u>
Program, management and administration expenses:		
Personnel	5,848,378	5,409,984
Leased bandwidth	4,794,940	3,996,957
Outside services and consulting	1,693,945	1,454,906
Equipment rental and depreciation	2,527,931	1,430,092
Equipment repairs and maintenance	984,134	842,108
Occupancy	438,825	370,762
Materials and supplies	243,976	210,878
Insurance	122,251	119,257
Contract equipment	240,065	43,407
Other	<u>150,686</u>	<u>132,363</u>
Total program, management and administration expenses	<u>17,045,131</u>	<u>14,010,714</u>
Change in net assets before other income and expenses	<u>(1,310,306)</u>	<u>(1,896,744)</u>
Other income and expenses:		
Net realized and unrealized (losses) gains on investments, net	(11,504,087)	3,397,415
Contributions	413,050	1,210,378
Interest income on investments	27,937	61,504
Other income	<u>2,371</u>	<u>30,182</u>
Total other income and expenses	<u>(11,060,729)</u>	<u>4,699,479</u>
Change in net assets	(12,371,035)	2,802,735
Unrestricted net assets, beginning of year	<u>62,374,250</u>	<u>59,571,515</u>
Unrestricted net assets, end of year	\$ <u><u>50,003,215</u></u>	<u><u>62,374,250</u></u>

See accompanying notes to combined financial statements.

MCNC AND AFFILIATE

Combined Statements of Cash Flows

Years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Change in net assets	\$ (12,371,035)	2,802,735
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,808,319	1,501,773
(Gain) loss on disposal of assets	(1,001)	7,763
Net losses (gains) on investments	11,476,254	(3,357,875)
Changes in operating assets and liabilities:		
Accounts receivable	1,816,732	(8,294,363)
Notes receivable	333,333	(666,666)
Prepaid expenses and other current assets	(863,116)	12,335
Accounts payable and accrued expenses	(2,002,778)	1,650,319
Deferred revenue	<u>(1,041,003)</u>	<u>8,401,238</u>
Net cash provided by operating activities	<u>155,705</u>	<u>2,057,259</u>
Cash flows from investing activities:		
Capital distributions from investments	329,262	469,463
Capital distribution from MCNC Enterprise Fund, L.P.	59,808	1,094,706
Capital expenditures	(5,609,557)	(2,899,415)
Acquisition of other assets	(292,000)	-
Proceeds from sales of fixed assets	<u>-</u>	<u>67,592</u>
Net cash used in investing activities	<u>(5,512,487)</u>	<u>(1,267,654)</u>
Cash flows from financing activities-		
net proceeds from line of credit	<u>5,135,000</u>	<u>-</u>
Net (decrease) increase in cash and cash equivalents	(221,782)	789,605
Cash and cash equivalents, beginning of year	<u>2,002,882</u>	<u>1,213,277</u>
Cash and cash equivalents, end of year	\$ <u>1,781,100</u>	<u>2,002,882</u>

See accompanying notes to combined financial statements.

## MCNC AND AFFILIATE

### Notes to Combined Financial Statements

June 30, 2009 and 2008

#### (1) Description of Organization and Operations

MCNC and Affiliate (the "Company") is a nonprofit organization founded by the North Carolina General Assembly in 1980. The Company focuses on providing data and interactive video networking and data center services primarily for education in North Carolina. This includes the 17-campus University of North Carolina system, the calendar 2009 implementation of the 115 Local Education Agencies (K-12), and for over 40 private colleges, universities, medical schools, research institutions, and community colleges throughout North Carolina.

#### (2) Significant Accounting Policies

##### (a) Principles of Combination

The 2009 and 2008 combined financial statements include the accounts of the Company and MCNC Endowment, which is controlled by the Company (see note 8). Intercompany balances and transactions have been eliminated in the combination.

##### (b) Cash and Cash Equivalents

The Company classifies highly liquid instruments with original maturities of three months or less as cash equivalents. Cash and cash equivalent balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. As of June 30, 2009, the Company's uninsured funds on deposit totaled \$1,531,100.

##### (c) Accounts and Notes Receivable

At the end of each year, the Company assesses its need for an allowance for potential losses in the collection of its receivables. Receivables are typically due within 30 days, and accounts outstanding longer than the payment terms are considered past due. As its receivables are typically from federal and state-supported institutions, the Company historically has not experienced significant write-offs of its receivables, but has still recorded an estimate of the amounts of possible bad debts that are billed during each fiscal year. As of June 30, 2009 and 2008, the Company recorded an allowance for doubtful accounts of \$25,000.

During 2008, the Company and a previously related party entered into an agreement whereby the previously related party agreed to contribute to the Company \$1,000,000 (recognized as a contribution) over a 3-year period. As of June 30, 2008, the first installment of \$333,334 had been received and as such a note receivable for the remaining \$666,666 was recorded. As of June 30, 2009, an additional installment of \$333,333 had been received and the outstanding balance of \$333,333 is recorded as a note receivable.



MCNC AND AFFILIATE

Notes to Combined Financial Statements, Continued

June 30, 2009 and 2008

(2) Significant Accounting Policies, Continued

(c) Accounts Receivable, Continued

As of June 30, 2009 and 2008, accounts receivable consisted of the following:

	<u>2009</u>	<u>2008</u>
Billed accounts receivable	\$ 7,475,888	9,357,175
Unbilled accounts receivable	81,059	238,055
Other receivables	480,260	258,709
Allowance for doubtful accounts	<u>(25,000)</u>	<u>(25,000)</u>
	<u>\$ 8,012,207</u>	<u>9,828,939</u>

Individual customers' accounts receivable balances representing at least 10% of the Company's net accounts receivable balance as of June 30, 2009 and 2008 are as follows:

<u>Customer</u>	<u>2009</u>	<u>2008</u>
A	70%	68%
B	4%	15%

(d) Fair Value Measurements

For determining fair value measurements, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Management follows an established framework for measuring fair value. That framework provides a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value are described below:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: one or more significant inputs or significant value drivers are unobservable or based on market assumptions

MCNC AND AFFILIATE

Notes to Combined Financial Statements, Continued

June 30, 2009 and 2008

(2) Significant Accounting Policies, Continued

(e) Investment Valuation and Income Recognition

The Company owns 50% of the limited partnership interest in MCNC Enterprise Fund, L.P. (the "Fund"). The Company accounts for its investment in the Fund under the equity method of accounting, which has been determined to approximate the fair value of the investment (Level 3). Accordingly, the Company records its share of the Fund's net income or loss in its statements of activities.

The Company's other investments include interests in the UNC Investment Fund, LLC and 2000 Champion Ventures (Q), L.P. A readily determinable fair value does not exist for these investments (Level 3). The Company reviews and evaluates the values provided by each entity as well as the valuation methods and assumptions used in determining the fair value of such investments in order to determine the appropriate value. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these investments existed.

(f) Building, Equipment and Furniture

Building, equipment and furniture are stated at original cost. Depreciation and amortization are provided using the straight-line method over the following useful lives:

Buildings	30 years
Computer equipment	3-4 years
Software	3 years
Office equipment	5 years
Technical equipment	7 years
Furniture and fixtures	10 years

Building, equipment and furniture include the following:

	<u>2009</u>	<u>2008</u>
Building and building improvements	\$ 8,535,305	8,090,193
Computer hardware	13,878,283	9,232,852
Contract equipment	1,668,245	1,456,088
Computer software	531,182	434,813
Other	<u>1,582,600</u>	<u>1,473,403</u>
	<u>\$ 26,195,615</u>	<u>20,687,349</u>

MCNC AND AFFILIATE

Notes to Combined Financial Statements, Continued

June 30, 2009 and 2008

(2) Significant Accounting Policies, Continued

(f) Building, Equipment and Furniture, Continued

Equipment acquired in connection with contracts is depreciated over the term of the respective contract, generally one to three years, which represents the economic useful life. Depreciation and amortization totaling approximately \$2,622,000 and \$1,426,000 was recognized during 2009 and 2008, respectively.

The Company evaluates the recoverability of its long-lived assets and records an impairment of long-lived assets in the event the net book value of such assets exceeds the estimated future undiscounted cash flows attributable to such assets or the businesses to which such long-lived assets relate. No impairment was recognized in 2009 or 2008.

(g) Other Assets

Other assets include the following:

	<u>2009</u>	<u>2008</u>
Indefeasible rights	\$ 2,370,627	2,078,627
Patents and trademarks	3,390	3,390
Accumulated amortization	<u>(1,587,185)</u>	<u>(1,400,960)</u>
	<u>\$ 786,832</u>	<u>681,057</u>

Indefeasible rights are associated with a network of optical fiber installed to provide high-speed communications between the Company and its research community. The Company is amortizing its indefeasible rights over their estimated useful lives of five to twenty years. Costs associated with obtaining patents and trademarks are capitalized and are amortized over five years. Amortization expense of approximately \$186,000 and \$75,000 was recognized during 2009 and 2008, respectively. The estimated amortization expense for each of the five succeeding periods is as follows:

<u>Year ending June 30,</u>	Estimated Amortization Expense
2010	\$ 64,528
2011	55,412
2012	43,608
2013	43,608
2014	43,608
Thereafter	<u>536,068</u>
	<u>\$ 786,832</u>

## MCNC AND AFFILIATE

### Notes to Combined Financial Statements, Continued

June 30, 2009 and 2008

#### (2) Significant Accounting Policies, Continued

##### (h) Internet, Data Center Services and Research

Internet revenue consists of amounts paid by universities, colleges and other third parties to the Company for Internet access. Revenue under such arrangements is recognized on a monthly basis as the services are provided. Data center services revenues are from providing collocation, hosting, backup and data storage services to universities, colleges and other third parties, and are primarily a fixed amount recognized monthly over the period of performance of each specific data center agreement. Research revenues with third parties are unique to each contract and, in some cases, are recognized against research costs that the Company was already incurring. These research revenues are primarily recognized as fixed monthly amounts over the covered period of the contract.

##### (i) Deferred Revenue

In certain situations, the Company bills for services to be performed under a contract in advance of the services being performed. Deferred revenue of \$11,448,131 and \$12,489,134 as of June 30, 2009 and 2008, respectively, represents amounts billed or cash received by the Company in advance of the required services being performed.

##### (j) Taxes

The Company is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from North Carolina income taxes under applicable sections of the General Statutes of North Carolina. Additionally, the Company is exempt from property taxes and qualifies for refunds of sales and use taxes. The Company is subject to paying taxes on any unrelated business income generated on certain investments. Taxes paid on unrelated business income generated on investments in limited liability corporations were \$27,832 and \$0 for 2009 and 2008, respectively.

As permitted by certain Financial Accounting Standards Board guidance, the Company has elected to defer the application of pronouncements related to the accounting for uncertain income tax provisions, as of and for the year ended June 30, 2009. The Company continues to account for uncertain tax positions in accordance with the principles of accounting for contingencies, under which liabilities for uncertain tax positions are recognized in the financial statements when it becomes probable a liability has been incurred and the amount can be reasonably estimated. Unless the deferral is extended further, the Company will be required to adopt the provisions of this alternate guidance for the year ended June 30, 2010. The Company has not yet determined the effects such adoption will have on the Company's financial statements.

## MCNC AND AFFILIATE

### Notes to Combined Financial Statements, Continued

June 30, 2009 and 2008

#### (2) Significant Accounting Policies, Continued

##### (k) Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. All contributions received in 2009 and 2008 were unrestricted.

##### (l) 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 the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of changes in net assets during the reporting period. Actual results could differ from those estimates.

##### (m) Reclassifications

Certain amounts for 2008 have been reclassified to conform to the presentation for 2009. These reclassifications had no effect on the change in net assets or net assets as previously reported.

#### (3) Investments

The Company recorded a loss of \$1,115,595 and \$715,133 during 2009 and 2008, respectively, related to its investment in the MCNC Enterprise Fund, L.P. (the "Fund"). These results are recorded as a component of the net realized and unrealized (losses) gains on investments in the accompanying combined statements of activities. Additionally, during 2009 and 2008, the Fund distributed \$59,808 and \$1,094,706, respectively, to the Company as a return of capital. The Company's investment in the Fund totaled \$3,321,281 and \$4,496,684 as of June 30, 2009 and 2008, respectively.

As of June 30, 2009 and 2008, the Fund has assets totaling \$6,676,747 and \$9,017,118, respectively, and liabilities totaling \$24,280 and \$23,750, respectively. The Fund recorded a decrease in partners' capital of \$2,290,382 and \$2,326,450 for 2009 and 2008, respectively.

MCNC AND AFFILIATE

Notes to Combined Financial Statements, Continued

June 30, 2009 and 2008

(3) Investments, Continued

Investments in limited partnerships and limited liability investment corporations are summarized below:

	<u>2009</u>	<u>2008</u>
UNC Investment Fund, LLC	\$ 41,440,097	51,849,893
2000 Champion Ventures (Q), L.P.	<u>1,069,410</u>	<u>1,349,535</u>
	\$ <u>42,509,507</u>	<u>53,199,428</u>

In connection with the Company's investments in 2000 Champion Ventures (Q), L.P., the Company has an unfunded commitment of \$436,642 as of both June 30, 2009 and 2008.

(Losses) gains on investments consisted of the following:

	<u>2009</u>	<u>2008</u>
Net unrealized (losses) gains on limited partnerships and limited liability corporations	\$ (10,513,382)	3,147,872
Net unrealized loss on investments in MCNC Enterprise Fund, L.P.	(1,115,595)	(715,133)
Net realized gain on limited liability corporations	<u>124,890</u>	<u>964,676</u>
	\$ <u>(11,504,087)</u>	<u>3,397,415</u>

MCNC AND AFFILIATE

Notes to Combined Financial Statements, Continued

June 30, 2009 and 2008

(4) Fair Value Measurements

The Company's investments as of June 30, 2009 are reported at fair value in the accompanying combined statement of activities as follows:

	<u>Fair Value</u>	<u>Fair Value Measurements at Reporting Date Using: Level 3</u>
Limited partnerships and limited liability corporations	\$ 42,509,507	42,509,507
MCNC Enterprise Fund, L.P.	<u>3,321,281</u>	<u>3,321,281</u>
	<u>\$ 45,830,788</u>	<u>45,830,788</u>

The following table provides further details of the changes in the Level 3 fair value measurements during 2009:

	<u>Limited partnerships and limited liability corporations</u>	<u>MCNC Enterprise Fund, L.P.</u>	<u>Total</u>
Balance, beginning of year	\$ 53,199,428	4,496,684	57,696,112
Total interest, dividends and gains and losses (realized and unrealized)	(10,360,659)	(1,115,595)	(11,476,254)
Distributions	<u>(329,262)</u>	<u>(59,808)</u>	<u>(389,070)</u>
Balance, end of year	<u>\$ 42,509,507</u>	<u>3,321,281</u>	<u>45,830,788</u>

## MCNC AND AFFILIATE

### Notes to Combined Financial Statements, Continued

June 30, 2009 and 2008

#### (5) Operating Leases

The Company's facilities are located in Research Triangle Park, North Carolina, on land leased for 99 years (until 2081) from a private not-for-profit corporation at the rate of \$1 per year.

The Company leases certain equipment and fibers under operating leases. These leases expire at various times over the next two years. Expenses under all operating leases totaled approximately \$4,800,000 and \$4,010,000 in 2009 and 2008, respectively.

Future minimum rental payments required under these operating leases approximate the following:

<u>Year ending June 30,</u>	
2010	\$ 1,183,000
2011	967,000
2012	299,000
2013	130,000
2014	130,000
Thereafter	<u>392,000</u>
	\$ <u>3,101,000</u>

#### (6) Line of Credit

On November 5, 2005, the Company signed a promissory note (the "Note") based on the terms of a loan agreement (the "Loan Agreement") with Wachovia Bank, N.A. The Loan Agreement provided a \$5,000,000 line of credit (the "Line") from which the Company could borrow from time to time as deemed necessary. The Note carried an interest rate of 1.35% plus the one-month LIBOR (3.8% as of June 30, 2008). The Company had no outstanding borrowings as of June 30, 2008. The Note was due and payable in consecutive monthly payments of accrued interest only, and continuing on the same day of each month thereafter until fully paid. In any event, the Note was due and payable in full on November 5, 2008, including all principal and accrued interest.

On July 9, 2008, the Company entered into an agreement with Wachovia Bank, N.A. to make available a \$1,000,000 line of credit for operational purposes. All amounts borrowed under this agreement were originally due April 15, 2009, with interest payable monthly at a rate of 1.20% plus the one-month LIBOR (1.52% as of June 30, 2009). The Company had no outstanding borrowings under this agreement as of June 30, 2009. In July 2009, this agreement was modified to reduce the amount available for borrowing to \$500,000, with interest to accrue at a rate of 2% plus the one-month LIBOR. All amounts owed are now due July 1, 2010. In connection with the Note, the Company had agreed to maintain certain liquidity requirements as covered in the Loan Agreement. As of June 30, 2009, the Company was in compliance with the Loan Agreement.



## MCNC AND AFFILIATE

### Notes to Combined Financial Statements, Continued

June 30, 2009 and 2008

#### (6) Line of Credit, Continued

During 2008, the Company signed another promissory note with Wachovia Bank, N.A. The Loan Agreement provided a \$9,000,000 line of credit from which the Company may borrow from time to time as deemed necessary. The Note carried an interest rate of 0.92% plus the one-month LIBOR (1.24% and 3.40% as of June 30, 2009 and 2008, respectively). The Company had \$5,135,000 and \$0 outstanding as of June 30, 2009 and 2008, respectively. The note was due and payable in consecutive monthly payments of accrued interest only commencing on August 1, 2008, and continuing on the same day of each month thereafter until fully paid. In any event, the Note was due and payable in full on June 24, 2009.

In July 2009, this agreement was modified to reduce the amount available for borrowing to \$7,000,000, with interest to accrue at a rate of 2% plus the one-month LIBOR. All amounts owed are now due July 1, 2010. In connection with the Note, the Company has agreed to maintain certain liquidity requirements as covered in the Loan Agreement. As of June 30, 2009, the Company is in compliance with the Loan Agreement.

#### (7) Employee Retirement Plan

The Company has a qualified, defined-contribution retirement plan (the "Plan") that is tax-exempt under Section 401(a) of the Internal Revenue Code and covers substantially all employees. The Company contributes 10% of each employee's post-deferral compensation to the Plan. Employer contributions vest ratably over a five-year period. Total contributions made by the Company related to the Plan, were approximately \$343,000 in 2008. During 2009, due to a change in the application of the Plan's forfeitures, the Company was not required to contribute any additional amounts to the Plan. The amount of forfeitures used in lieu of 2009 contributions was approximately \$428,000.

#### (8) MCNC Endowment

In 2000, MCNC Endowment (the "Endowment") was established to be operated exclusively for the benefit of the Company for charitable, educational and scientific objectives and for the public purpose of promoting scientific research and education to encourage the development of the electronic and information technologies industries in the State of North Carolina.

The Board of Directors of the Endowment has enacted a spending policy. This policy permits annual draws for the Company's operations up to 5% of the prior three-year average of the Endowment asset balance. It further permits extraordinary draws for non-recurring, mission related projects assuming passage of a two-thirds vote of both the Company board of directors and the Endowment board of directors. Draws for either purpose must not reduce the Endowment asset balance below the adjusted base level (\$40,000,000 in 2008 with annual adjustments at a 3% inflation rate).

MCNC AND AFFILIATE

Notes to Combined Financial Statements, Continued

June 30, 2009 and 2008

(9) Subsequent Events

Management has evaluated subsequent events through November 13, 2009, the date the financial statements were available to be issued.

**MCNC AND AFFILIATE**

**Financial Statements**

**June 30, 2008 and 2007**

**(With Independent Auditors' Report Thereon)**

**BATCHELOR, TILLERY & ROBERTS, LLP**

CERTIFIED PUBLIC ACCOUNTANTS

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**Independent Auditors' Report**

The Boards of Directors  
MCNC and Affiliate:

We have audited the accompanying statements of financial position of MCNC and Affiliate (the "Company") as of June 30, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Company'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. 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 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 Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the 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 MCNC and Affiliate as of June 30, 2008 and 2007, 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.

*Batchelor, Tillery & Roberts, LLP*

November 6, 2008

MCNC AND AFFILIATE

Statements of Financial Position

June 30, 2008 and 2007

<u>Assets</u>	<u>2008</u>	<u>2007</u>
Current assets:		
Cash and cash equivalents	\$ 2,002,882	1,213,277
Accounts receivable, net	9,828,939	1,534,576
Notes receivable, net of long-term portion	333,333	-
Prepaid expenses and other current assets	<u>997,809</u>	<u>1,010,144</u>
Total current assets	<u>13,162,963</u>	<u>3,757,997</u>
Investment in MCNC Enterprise Fund, L.P.	<u>4,496,684</u>	<u>6,306,523</u>
Investments	<u>53,199,428</u>	<u>49,595,883</u>
Building, equipment and furniture:		
Building, equipment and furniture	20,687,349	17,944,013
Less accumulated depreciation and amortization	<u>(14,566,758)</u>	<u>(13,220,341)</u>
Building, equipment and furniture, net	<u>6,120,591</u>	<u>4,723,672</u>
Notes receivable, long-term	333,333	-
Other assets, net	<u>681,057</u>	<u>755,689</u>
	<u>\$ 77,994,056</u>	<u>65,139,764</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable and accrued expenses	3,130,672	1,480,353
Deferred revenue	<u>12,489,134</u>	<u>4,087,896</u>
Total current liabilities	<u>15,619,806</u>	<u>5,568,249</u>
Commitments		
Unrestricted net assets	<u>62,374,250</u>	<u>59,571,515</u>
	<u>\$ 77,994,056</u>	<u>65,139,764</u>

See accompanying notes to financial statements.

MCNC AND AFFILIATE

Statements of Activities

Years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>Revenues:</b>		
University services agreement	\$ 6,589,257	6,831,328
Internet, data center services and research	<u>5,524,713</u>	<u>4,139,578</u>
Total revenues	<u>12,113,970</u>	<u>10,970,906</u>
<b>Program, management and administration expenses:</b>		
Personnel	5,409,984	5,135,912
Leased bandwidth	3,996,957	3,817,208
Outside services and consulting	1,454,906	1,470,658
Equipment rental and depreciation	1,430,092	1,578,387
Equipment repairs and maintenance	842,108	906,625
Occupancy	370,762	336,658
Materials and supplies	210,878	332,969
Insurance	119,257	190,630
Contract equipment	43,407	199,027
Other	<u>132,363</u>	<u>55,633</u>
Total program, management and administration expenses	<u>14,010,714</u>	<u>14,023,707</u>
Change in net assets before other income and expenses	<u>(1,896,744)</u>	<u>(3,052,801)</u>
<b>Other income and expenses:</b>		
Net realized and unrealized gains on investments, net of taxes	3,397,415	9,607,835
Contributions	1,210,378	243,688
Interest income on investments	61,504	69,157
Net (loss) gain on disposal of assets	(7,763)	21,267
Other income	<u>37,945</u>	<u>-</u>
Total other income and expenses	<u>4,699,479</u>	<u>9,941,947</u>
Change in net assets	2,802,735	6,889,146
Net assets, beginning of year	<u>59,571,515</u>	<u>52,682,369</u>
Net assets, end of year	\$ <u>62,374,250</u>	<u>59,571,515</u>

See accompanying notes to financial statements.

MCNC AND AFFILIATE

Statements of Cash Flows

Years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Change in net assets	\$ 2,802,735	6,889,146
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,501,773	1,770,136
Loss (gain) on disposal of assets	7,763	(21,267)
Net gains on investments	(3,357,875)	(9,769,871)
Changes in operating assets and liabilities:		
Accounts receivable	(8,294,363)	926,177
Notes receivable	(666,666)	-
Prepaid expenses and other current assets	12,335	864,879
Accounts payable and accrued expenses	1,650,319	(3,712,735)
Deferred revenue	8,401,238	(623,506)
Net cash provided by (used in) operating activities	<u>2,057,259</u>	<u>(3,677,041)</u>
Cash flows from investing activities:		
Purchases of investments	-	(119,230)
Proceeds from sales of investments	-	6,649,424
Capital distributions from investments	469,463	-
Capital distribution from MCNC Enterprise Fund, L.P.	1,094,706	87,414
Capital expenditures	(2,899,415)	(965,381)
Proceeds from sales of fixed assets	67,592	21,758
Net cash (used in) provided by investing activities	<u>(1,267,654)</u>	<u>5,673,985</u>
Cash flows from financing activities:		
Proceeds from line of credit	100,000	4,876,000
Repayments on line of credit	(100,000)	(5,992,000)
Net cash used in financing activities	<u>-</u>	<u>(1,116,000)</u>
Net increase in cash and cash equivalents	789,605	880,944
Cash and cash equivalents, beginning of year	<u>1,213,277</u>	<u>332,333</u>
Cash and cash equivalents, end of year	\$ <u>2,002,882</u>	<u>1,213,277</u>

See accompanying notes to financial statements.

## MCNC AND AFFILIATE

### Notes to Financial Statements

June 30, 2008 and 2007

(1) Description of Organization and Operations

MCNC and Affiliate (the "Company") is a nonprofit organization founded by the North Carolina General Assembly in 1980. The Company focuses on providing data and interactive video networking and data center services primarily for education in North Carolina. This includes the 17-campus University of North Carolina system, initial implementation of 12 of the 115 Local Education Agencies (K-12), and for over 40 private colleges, universities, medical schools, research institutions, and community colleges throughout North Carolina.

(2) Significant Accounting Policies

(a) Principles of Combination

The 2008 and 2007 combined financial statements include the accounts of the Company and a related organization controlled by the Company. Intercompany balances and transactions have been eliminated.

(b) Cash and Cash Equivalents

The Company classifies highly liquid instruments with original maturities of three months or less as cash equivalents. Cash and cash equivalent balances are insured by the Federal Deposit Insurance Corporation up to \$100,000. As of June 30, 2008 and 2007, respectively, the Company's uninsured funds on deposit totaled \$1,902,882 and \$1,113,277.

(c) Accounts and Notes Receivable

At the end of each year, the Company assesses its need for an allowance for potential losses in the collection of its receivables. Receivables are typically due within 30 days, and accounts outstanding longer than the payment terms are considered past due. As its receivables are typically from federal and state-supported institutions, the Company historically has not experienced significant write-offs of its receivables, but has still recorded an estimate of the amounts of possible bad debts that are billed during each fiscal year. As of June 30, 2008 and 2007, the Company recorded an allowance for doubtful accounts of \$25,000 and \$2,096,619, respectively.

The magnitude of the allowance as of June 30, 2007 was primarily due to a single receivable, unrelated to the Company's operations, due from a previously related party. This receivable was based upon expenses incurred by the Company during prior years for which the Company had billed the previously related party for its portion of the expenses and for which payment had not yet been received. As of June 30, 2007, the Company had fully reserved for this receivable from the previously related party.



MCNC AND AFFILIATE

Notes to Financial Statements, Continued

June 30, 2008 and 2007

(2) Significant Accounting Policies, Continued

(c) Accounts Receivable, Continued

During 2008, the Company and the previously related party entered into an agreement whereby the previously related party will contribute to the Company \$1,000,000 (recognized as a contribution) over a 3-year period. As of June 30, 2008, the first installment of \$333,334 had been received and as such a note receivable for the remaining \$666,666 was recorded.

As of June 30, 2008 and 2007, accounts receivable consisted of the following:

	<u>2008</u>	<u>2007</u>
Billed accounts receivable	\$ 9,357,175	1,379,785
Accounts receivable due from previously related party	-	2,071,619
Unbilled accounts receivable	238,055	33,883
Other receivables	258,709	145,908
Allowance for doubtful accounts	<u>(25,000)</u>	<u>(2,096,619)</u>
	<u>\$ 9,828,939</u>	<u>1,534,576</u>

Individual customers' accounts receivable balances representing at least 10% of the Company's net (not including the fully reserved accounts receivable due from the previously related party) accounts receivable balance as of June 30, 2008 and 2007, are as follows:

<u>Customer</u>	<u>2008</u>	<u>2007</u>
A	68%	0%
B	15%	0%

(d) Investments

The Company owns 50% of the limited partnership interest in MCNC Enterprise Fund, L.P. (the "Fund"). The Company accounts for its investment in the Fund under the equity method of accounting. Accordingly, the Company records its share of the Fund's net income or loss in its statements of activities.

The Company's other investments include interests in the UNC Investment Fund, LLC and 2000 Champion Ventures (Q), L.P. A readily determinable fair value does not exist for these investments and they are carried at estimated fair values as provided by each entity. The Company reviews and evaluates the values provided as well as the valuation methods and assumptions used in determining the fair value of such investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these investments existed.

## MCNC AND AFFILIATE

### Notes to Financial Statements, Continued

June 30, 2008 and 2007

#### (2) Significant Accounting Policies, Continued

##### (e) Building, Equipment and Furniture

Building, equipment and furniture are stated at original cost. Depreciation and amortization are provided using the straight-line method over the following useful lives:

Buildings	30 years
Computer equipment	3-4 years
Software	3 years
Office equipment	5 years
Technical equipment	7 years
Furniture and fixtures	10 years

Building, equipment and furniture include the following:

	<u>2008</u>	<u>2007</u>
Building and building improvements	\$ 8,090,193	7,602,890
Computer hardware	9,232,852	7,566,689
Contract equipment	1,456,088	1,442,747
Computer software	434,813	416,522
Other	<u>1,473,403</u>	<u>915,165</u>
	\$ <u>20,687,349</u>	<u>17,944,013</u>

Equipment acquired in connection with contracts is depreciated over the term of the respective contract, generally one to three years, which represents the economic useful life. Depreciation and amortization totaling approximately \$1,426,000 and \$1,619,000 was recognized during 2008 and 2007, respectively.

The Company evaluates the recoverability of its long-lived assets and records an impairment of long-lived assets in the event the net book value of such assets exceeds the estimated future undiscounted cash flows attributable to such assets or the businesses to which such long-lived assets relate. No impairment was recognized in 2008 or 2007.

MCNC AND AFFILIATE

Notes to Financial Statements, Continued

June 30, 2008 and 2007

(2) Significant Accounting Policies, Continued

(f) Other Assets

Other assets include the following:

	<u>2008</u>	<u>2007</u>
Indefeasible rights	\$ 2,078,627	2,078,627
Patents and trademarks	3,390	3,390
Accumulated amortization	<u>(1,400,960)</u>	<u>(1,326,328)</u>
	\$ <u>681,057</u>	<u>755,689</u>

Indefeasible rights are associated with a network of optical fiber installed to provide high-speed communications between the Company and its research community. The Company is amortizing its indefeasible rights over their estimated useful lives of five to ten years. Costs associated with obtaining patents and trademarks are capitalized and are amortized over five years. Amortization expense of approximately \$75,000 was recognized during both 2008 and 2007. The estimated amortization expense for each of the five succeeding periods is as follows:

Fiscal year:	Estimated Amortization <u>Expense</u>
2009	\$ 121,128
2010	92,428
2011	67,609
2012	55,800
2013	55,800
Thereafter	\$ <u>288,292</u>

(g) University Services Agreement Revenue

University services agreement revenue consists primarily of cost reimbursements related to service center contracts entered into with the University of North Carolina system. Such revenues are recognized as the related expenditures are incurred by the Company.

## MCNC AND AFFILIATE

### Notes to Financial Statements, Continued

June 30, 2008 and 2007

#### (2) Significant Accounting Policies, Continued

##### (h) Internet, Data Center Services and Research

Internet revenue consists of amounts paid by universities, colleges and other third parties to the Company for Internet access. Revenue under such arrangements is recognized on a monthly basis as the services are provided. Data center services revenues are from providing collocation, hosting, backup and data storage services to universities, colleges and other third parties, and are primarily a fixed amount recognized monthly over the period of performance of each specific data center agreement. Research revenues with third parties are unique to each contract and, in some cases, are recognized against research costs that the Company was already incurring. These research revenues are primarily recognized as fixed monthly amounts over the covered period of the contract.

##### (i) Deferred Revenue

In certain situations, the Company bills for services to be performed under a contract in advance of the services being performed. Deferred revenue of \$12,489,134 and \$4,087,896 as of June 30, 2008 and 2007, respectively, represents amounts billed or cash received by the Company in advance of the required services being performed.

##### (j) Taxes

The Company is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from North Carolina income taxes under applicable sections of the General Statutes of North Carolina. Additionally, the Company is exempt from property taxes and qualifies for refunds of sales and use taxes. The Company is subject to paying taxes on any unrelated business income generated on certain investments. Taxes paid on unrelated business income generated on investments in limited liability corporations were \$0 and \$162,038 for 2008 and 2007, respectively.

##### (k) Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. All contributions received in 2008 and 2007 were unrestricted.

##### (l) 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 the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of changes in net assets during the reporting period. Actual results could differ from those estimates.

MCNC AND AFFILIATE

Notes to Financial Statements, Continued

June 30, 2008 and 2007

(3) Investments

The Company recorded an equity method loss of \$715,133 and \$333,677 during 2008 and 2007, respectively, related to its investment in the MCNC Enterprise Fund, L.P. (the "Fund"). These results are recorded as a component of the net realized and unrealized gain on investments in the accompanying statements of activities. Additionally, during 2008 and 2007, the Fund distributed \$1,094,706 and \$87,414, respectively, to the Company as a return of capital. The Company's investment in the Fund totaled \$4,496,684 and \$6,306,523 as of June 30, 2008 and 2007, respectively.

As of June 30, 2008 and 2007, the Fund has assets totaling \$9,017,118 and \$12,635,864, respectively, and liabilities totaling \$23,750 and \$22,818, respectively. The Fund recorded a decrease in partners' capital of \$2,326,450 and \$1,288,941 for 2008 and 2007, respectively.

Investments in limited partnerships and limited liability investment corporations are summarized below:

	<u>2008</u>	<u>2007</u>
UNC Investment Fund, LLC	\$ 51,849,893	48,166,250
2000 Champion Ventures (Q), L.P.	<u>1,349,535</u>	<u>1,429,633</u>
	<u>\$ 53,199,428</u>	<u>49,595,883</u>

In connection with the Company's investments in 2000 Champion Ventures (Q), L.P., the Company has an unfunded commitment of \$436,642 and \$472,412 as of June 30, 2008 and 2007, respectively.

Gain on investments consisted of the following:

	<u>2008</u>	<u>2007</u>
Net unrealized gain on limited partnerships and limited liability corporations	\$ 3,147,872	7,007,094
Net unrealized loss on investments in MCNC Enterprise Fund, L.P.	(715,133)	(333,677)
Net realized gain on limited liability corporations	<u>964,676</u>	<u>2,934,418</u>
	<u>\$ 3,397,415</u>	<u>9,607,835</u>

## MCNC AND AFFILIATE

### Notes to Financial Statements, Continued

June 30, 2008 and 2007

#### (4) Operating Leases

The Company's facilities are located in Research Triangle Park, North Carolina, on land leased for 99 years (until 2081) from a private not-for-profit corporation at the rate of \$1 per year.

The Company leases certain equipment under operating leases. These leases expire at various times over the next two years. Expenses under all operating leases totaled approximately \$20,000 and \$27,000 in 2008 and 2007, respectively.

During 2008, the Company entered into an operating lease for certain dark fibers that will not go into effect until 2009.

Future minimum rental payments required under these operating leases are as follows:

2009	\$ 46,796
2010	57,864
2011	57,864
2012	57,864
2013	57,864
Thereafter	<u>308,612</u>
	\$ <u>586,864</u>

#### (5) Line of Credit

On November 5, 2005, the Company signed a promissory note (the "Note") based on the terms of a loan agreement (the "Loan Agreement") with Wachovia Bank, N.A. The Loan Agreement provides a \$5,000,000 line of credit (the "Line") from which the Company may borrow from time to time as deemed necessary. The Note carries an interest rate of 1.35% plus the one-month LIBOR (3.8% and 5.3% as of June 30, 2008 and 2007, respectively). The Company had no outstanding borrowings as of June 30, 2008 or 2007. The Note is due and payable in consecutive monthly payments of accrued interest only, and continuing on the same day of each month thereafter until fully paid. In any event, the Note is due and payable in full on November 5, 2008, including all principal and accrued interest. In connection with the Note, the Company has agreed to maintain certain liquidity requirements as covered in the Loan Agreement. As of June 30, 2008, the Company is in compliance with the Loan Agreement.

Subsequent to year-end, the Company entered into an agreement with Wachovia Bank, N.A. to amend the \$5,000,000 line of credit. Under the terms of the revised loan agreement, a \$1,000,000 line of credit is available for operational purposes. All amounts borrowed under this revised agreement are due and payable April 15, 2009, unless extended. Interest is to accrue at a rate of 1.20% plus the one-month LIBOR.

## MCNC AND AFFILIATE

### Notes to Financial Statements, Continued

June 30, 2008 and 2007

#### (5) Line of Credit, Continued

During 2008, the Company signed another promissory note with Wachovia Bank, N.A. The Loan Agreement provides a \$9,000,000 line of credit from which the Company may borrow from time to time as deemed necessary. The Note carries an interest rate of 0.92% plus the one-month LIBOR (3.4% as of June 30, 2008). The Company had no outstanding borrowings as of June 30, 2008. The note is due and payable in consecutive monthly payments of accrued interest only commencing on August 1, 2008, and continuing on the same day of each month thereafter until fully paid. In any event, the Note is due and payable in full on June 24, 2009, unless extended. In connection with the Note, the Company has agreed to maintain certain liquidity requirements as covered in the Loan Agreement. As of June 30, 2008, the Company is in compliance with the Loan Agreement.

#### (6) Employee Retirement Plan

The Company has a qualified, defined-contribution retirement plan (the "Plan") that is tax-exempt under Section 401(a) of the Internal Revenue Code and covers substantially all employees. The Company contributes 10% of each employee's post-deferral compensation to the Plan. Employer contributions vest ratably over a five-year period. Total contributions made by the Company related to the Plan were approximately \$343,000 and \$309,000 in 2008 and 2007, respectively.

**MCNC AND AFFILIATE**

**Financial Statements and Other Reports**

**June 30, 2007 and 2006**

**(With Independent Auditors' Report Thereon)**



MCNC AND AFFILIATE

2007 Audit

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**Independent Auditors' Report**

The Boards of Directors  
MCNC and Affiliate:

We have audited the accompanying statement of financial position of MCNC and Affiliate (the "Company") as of June 30, 2007, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Company as of June 30, 2006 were audited by other auditors. Those auditors expressed an unqualified opinion on those financial statements in their report dated January 31, 2007.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board of the American Institute of Certified Public Accountants 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 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 Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 MCNC and Affiliate as of June 30, 2007, and the changes in its net assets and its cash flows for the year 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 December 17, 2007, on our consideration of the Company'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 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 as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Batchelor, Jillery & Roberts, LLP

December 17, 2007

MCNC AND AFFILIATE

Statements of Financial Position

June 30, 2007 and 2006

<u>Assets</u>	<u>2007</u>	<u>2006</u>
Current assets:		
Cash and cash equivalents	\$ 1,213,277	332,333
Accounts receivable, net	1,534,576	2,460,753
Prepaid expenses and other current assets	<u>1,010,144</u>	<u>1,875,023</u>
Total current assets	<u>3,757,997</u>	<u>4,668,109</u>
Investment in MCNC Enterprise Fund, L.P.	<u>6,306,523</u>	<u>6,727,614</u>
Investments	<u>49,595,883</u>	<u>46,022,529</u>
Building, equipment and furniture:		
Building, equipment and furniture	17,944,013	17,382,487
Less accumulated depreciation and amortization	<u>(13,220,341)</u>	<u>(11,928,232)</u>
Building, equipment and furniture, net	<u>4,723,672</u>	<u>5,454,255</u>
Other assets, net	<u>755,689</u>	<u>830,352</u>
	<u>\$ 65,139,764</u>	<u>63,702,859</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,480,353	5,193,088
Deferred revenue	4,087,896	4,711,402
Line of credit	<u>-</u>	<u>1,116,000</u>
Total current liabilities	<u>5,568,249</u>	<u>11,020,490</u>
Commitments and contingencies		
Unrestricted net assets	<u>59,571,515</u>	<u>52,682,369</u>
	<u>\$ 65,139,764</u>	<u>63,702,859</u>

See accompanying notes to financial statements.

MCNC AND AFFILIATE

Statements of Activities

Years ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Revenues:		
University services agreement	\$ 6,831,328	6,128,375
Internet, data center services and research	<u>4,139,578</u>	<u>4,995,375</u>
Total revenues	<u>10,970,906</u>	<u>11,123,750</u>
Program, management and administration expenses:		
Personnel	5,135,912	4,709,258
Leased bandwidth	3,817,208	4,218,965
Bad debt expense	-	1,959,376
Equipment rental and depreciation	1,578,387	2,021,275
Outside services and consulting	1,470,658	4,540,472
Equipment repairs and maintenance	906,625	922,647
Occupancy	336,658	369,860
Materials and supplies	332,969	290,937
Contract equipment	199,027	19,551
Insurance	190,630	189,111
Other	<u>55,633</u>	<u>61,538</u>
Total program, management and administration expenses	<u>14,023,707</u>	<u>19,302,990</u>
Change in net assets before other income and expenses	<u>(3,052,801)</u>	<u>(8,179,240)</u>
Other income and expenses:		
Interest income and investments	69,157	104,029
Net realized and unrealized gains on investments, net of taxes	9,607,835	7,490,424
Net gain (loss) on disposal of assets	21,267	(7,724)
Contributions	243,688	-
Other income	<u>-</u>	<u>294,706</u>
Total other income and expenses	<u>9,941,947</u>	<u>7,881,435</u>
Change in net assets	6,889,146	(297,805)
Net assets, beginning of year	<u>52,682,369</u>	<u>52,980,174</u>
Net assets, end of year	\$ <u>59,571,515</u>	<u>52,682,369</u>

See accompanying notes to financial statements.

MCNC AND AFFILIATE

Statements of Cash Flows

Years ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Change in net assets	\$ 6,889,146	(297,805)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	1,770,136	2,046,992
(Gain) loss on disposal of assets	(21,267)	7,724
Net gains on investments	(9,769,871)	(7,490,424)
Changes in operating assets and liabilities:		
Accounts receivable	926,177	(250,685)
Prepaid expenses and other current assets	864,879	(182,755)
Accounts payable and accrued expenses	(3,712,735)	2,375,105
Deferred revenue	<u>(623,506)</u>	<u>(38,223)</u>
Net cash used in operating activities	<u>(3,677,041)</u>	<u>(3,830,071)</u>
Cash flows from investing activities:		
Purchases of investments	(119,230)	(2,245,525)
Proceeds from sales of investments	6,649,424	2,124,629
Capital distribution from MCNC Enterprise Fund, L.P.	87,414	987,825
Capital expenditures	(965,381)	(2,024,871)
Proceeds from sales of fixed assets	21,758	72,784
Expenditures for other assets	<u>-</u>	<u>(368,327)</u>
Net cash provided by (used in) investing activities	<u>5,673,985</u>	<u>(1,453,485)</u>
Cash flows from financing activities:		
Proceeds from line of credit	4,876,000	1,116,000
Repayments on line of credit	<u>(5,992,000)</u>	<u>-</u>
Net cash (used in) provided by financing activities	<u>(1,116,000)</u>	<u>1,116,000</u>
Net increase (decrease) in cash and cash equivalents	880,944	(4,167,556)
Cash and cash equivalents, beginning of year	<u>332,333</u>	<u>4,499,889</u>
Cash and cash equivalents, end of year	\$ <u>1,213,277</u>	<u>332,333</u>

See accompanying notes to financial statements.

## MCNC AND AFFILIATE

### Notes to Financial Statements

June 30, 2007 and 2006

(1) Description of Organization and Operations

MCNC and Affiliate (the "Company") is a nonprofit organization founded by the North Carolina General Assembly in 1980. The Company focuses on providing data and interactive video networking and data center services primarily for the 16-campus University of North Carolina system and for over 40 private colleges and universities, medical schools and community colleges throughout North Carolina.

(2) Significant Accounting Policies

(a) Principles of Combination

The 2007 and 2006 combined financial statements include the accounts of the Company and a related organization controlled by the Company. Intercompany balances and transactions have been eliminated.

(b) Cash and Cash Equivalents

The Company has bank balances with high credit-quality financial institutions that, at times, exceed federally insured limits.

The Company classifies highly liquid instruments with original maturities of three months or less as cash equivalents.

(c) Accounts Receivable

At the end of each year, the Company assesses its need for an allowance for potential losses in the collection of its receivables. Receivables are typically due within 30 days, and accounts outstanding longer than the payment terms are considered past due. As its receivables are typically from federal and state-supported institutions, the Company historically has not experienced significant write-offs of its receivables, but has still recorded an estimate of the amounts of possible bad debts that are billed during each fiscal year. As of June 30, 2007 and 2006, the Company recorded an allowance for doubtful accounts of \$2,096,619. The magnitude of the allowance is primarily due to a single receivable, unrelated to the Company's operations, due from a previously related party. This receivable is based upon expenses incurred by the Company during the current and prior years for which the Company has billed the previously related party for its portion of the expenses and for which payment has not yet been received.

MCNC AND AFFILIATE

Notes to Financial Statements, Continued

June 30, 2007 and 2006

(2) Significant Accounting Policies, Continued

(c) Accounts Receivable, Continued

Therefore, the Company has fully reserved for this receivable from the previously related party.

As of June 30, 2007 and 2006, accounts receivable consisted of the following:

	<u>2007</u>	<u>2006</u>
Billed accounts receivable	\$ 1,379,785	2,209,264
Accounts receivable due from previously related party	2,071,619	2,103,156
Unbilled accounts receivable	33,883	25,687
Other receivables	145,908	219,265
Allowance for doubtful accounts	<u>(2,096,619)</u>	<u>(2,096,619)</u>
	<u>\$ 1,534,576</u>	<u>2,460,753</u>

Individual customers' accounts receivable balances representing at least 10% of the Company's net (not including the fully reserved accounts receivable due from the previously related party) accounts receivable balance as of June 30, 2007 and 2006, are as follows:

<u>Customer</u>	<u>2007</u>	<u>2006</u>
A	23%	20%
B	17%	21%
C	13%	21%

(d) Investment in MCNC Enterprise Fund, L.P.

The Company owns 50% of the limited partnership interest in MCNC Enterprise Fund, L.P. (the "Fund"). The Company accounts for its investment in the Fund under the equity method of accounting. Accordingly, the Company records its share of the Fund's net income or loss in its statements of activities.



MCNC AND AFFILIATE

Notes to Financial Statements, Continued

June 30, 2007 and 2006

(2) Significant Accounting Policies, Continued

(d) Investment in MCNC Enterprise Fund, L.P., Continued

The Company recorded an equity method loss of \$333,677 and gain of \$145,066 during 2007 and 2006, respectively, related to its investment in the Fund. These results are recorded as a component of the net realized and unrealized gain on investments in the accompanying statements of activities. Additionally, during 2007 and 2006, the Fund distributed \$87,414 and \$987,825, respectively, to the Company as a return of capital.

As of June 30, 2007 and 2006, the Fund has assets totaling \$12,635,864 and \$13,473,229, respectively, and liabilities totaling \$22,818 and \$18,000, respectively. The Fund recorded a decrease in partners' capital of \$1,288,941 and \$2,127,071 for 2007 and 2006, respectively.

(e) Building, Equipment and Furniture

Building, equipment and furniture are stated at original cost. Depreciation and amortization are provided using the straight-line method over the following useful lives:

Buildings	30 years
Computer equipment	3 years
Software	3 years
Office equipment	5 years
Technical equipment	7 years
Furniture and fixtures	10 years

Building, equipment and furniture include the following:

	<u>2007</u>	<u>2006</u>
Building and building improvements	\$ 7,602,890	7,502,733
Computer hardware	7,566,689	6,349,998
Contract equipment	1,442,747	1,373,318
Assets in process	-	974,789
Other	915,165	755,127
Computer software	<u>416,522</u>	<u>426,522</u>
	<u>\$ 17,944,013</u>	<u>17,382,487</u>

## MCNC AND AFFILIATE

### Notes to Financial Statements, Continued

June 30, 2007 and 2006

#### (2) Significant Accounting Policies, Continued

##### (e) Building, Equipment and Furniture

Assets in process is equipment purchased by the Company that has not yet been placed into service and, therefore, is not being depreciated. At the time the asset is placed into service, it is reclassified to the appropriate account and is depreciated accordingly.

Equipment acquired in connection with contracts is depreciated over the term of the respective contract, generally one to three years, which represents the economic useful life. Depreciation and amortization totaling approximately \$1,619,000 and \$1,984,000 was recognized during 2007 and 2006, respectively.

The Company evaluates the recoverability of its long-lived assets in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 requires recognition of impairment of long-lived assets in the event the net book value of such assets exceeds the estimated future undiscounted cash flows attributable to such assets or the businesses to which such long-lived assets relate. No impairment was recognized in 2007 or 2006.

##### (f) Other Assets

Other assets include the following:

	<u>2007</u>	<u>2006</u>
Indefeasible rights	\$ 2,078,627	2,078,627
Patents and trademarks	3,390	3,390
Accumulated amortization	<u>(1,326,328)</u>	<u>(1,251,665)</u>
	<u>\$ 755,689</u>	<u>830,352</u>

## MCNC AND AFFILIATE

### Notes to Financial Statements, Continued

June 30, 2007 and 2006

#### (2) Significant Accounting Policies, Continued

##### (f) Other Assets, Continued

Indefeasible rights are associated with a network of optical fiber installed to provide high-speed communications between the Company and its research community. The Company is amortizing its indefeasible rights over their estimated useful lives of five years. Costs associated with obtaining patents and trademarks are capitalized and are amortized over five years. Amortization expense of approximately \$75,000 and \$63,000 was recognized during 2007 and 2006, respectively. The estimated amortization expense for each of the five succeeding periods is as follows:

Fiscal year:	Estimated Amortization <u>Expense</u>
2008	\$ 88,578
2009	130,428
2010	92,428
2011	67,609
2012	55,800
Thereafter	\$ <u>320,846</u>

##### (g) University Services Agreement Revenue

University services agreement revenue consists primarily of cost reimbursements related to service center contracts entered into with the University of North Carolina system. Such revenues are recognized as the related expenditures are incurred by the Company.

##### (h) Internet, Data Center Services and Research

Internet revenue consists of amounts paid by universities, colleges and other third parties to the Company for Internet access. Revenue under such arrangements is recognized on a monthly basis as the services are provided. Data center services revenues are from providing collocation, hosting, disaster recovery and data storage services to universities, colleges and other third parties, and are primarily a fixed amount recognized monthly over the period of performance of the specific data center services agreement. Research revenues with third parties and the federal government are unique to each contract and, in some cases, are recognized against research costs that the Company was already incurring. These research revenues are recognized primarily as fixed monthly amounts over the covered period of the specific contract.

## MCNC AND AFFILIATE

### Notes to Financial Statements, Continued

June 30, 2007 and 2006

#### (2) Significant Accounting Policies, Continued

##### (i) Deferred Revenue

In certain situations, the Company bills for services to be performed under a contract in advance of the services being performed. Deferred revenue of \$4,087,896 and \$4,711,402 as of June 30, 2007 and 2006, respectively, represents amounts billed or cash received by the Company in advance of the required services being performed.

##### (j) Taxes

The Company is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from North Carolina income taxes under applicable sections of the General Statutes of North Carolina. Additionally, the Company is exempt from property taxes and qualifies for refunds of sales and use taxes. The Company is subject to paying taxes on any unrelated business income generated on certain investments. Taxes paid on unrelated business income generated on investments in limited liability corporations was \$162,038 for 2007.

##### (k) 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 the reported amounts of 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.

##### (l) Reclassifications

Certain amounts for 2006 have been reclassified to conform to the presentation for 2007. Such reclassifications have no impact on net assets or the change therein.

#### (3) Investments

During 2007 and 2006, the Company invested \$119,230 and \$2,245,525, respectively, in limited partnerships and limited liability investment corporations and held investments in limited partnerships and limited liability investment corporations in the amounts of \$49,595,883 and \$46,022,529 as of June 30, 2007 and 2006, respectively.

In connection with one of the Company's investments in a limited partnership, the Company has an unfunded commitment of \$472,412 and \$591,641 as of June 30, 2007 and 2006, respectively.

## MCNC AND AFFILIATE

### Notes to Financial Statements, Continued

June 30, 2007 and 2006

#### (3) Investments, Continued

Gain on investments consisted of the following:

	<u>2007</u>	<u>2006</u>
Net unrealized gain on limited partnerships and limited liability corporations	\$ 7,007,094	7,454,701
Net unrealized (loss) gain on investments in MCNC Enterprise Fund, L.P.	(333,677)	145,066
Net realized gain (loss) on limited liability corporations	<u>2,934,418</u>	<u>(109,343)</u>
	<u>\$ 9,607,835</u>	<u>7,490,424</u>

#### (4) Operating Leases

The Company's facilities are located in Research Triangle Park, North Carolina, on land leased for 99 years (until 2081) from a private not-for-profit corporation at the rate of \$1 per year.

The Company leases certain facilities and equipment under operating leases. These leases expire at various times over the next six years. Expenses under all operating leases totaled approximately \$27,000 and \$37,000 in 2007 and 2006, respectively.

Aggregate lease obligations under operating leases having noncancelable remaining terms of one year or more as of June 30, 2007, are immaterial for future fiscal years.

#### (5) Line of Credit

On November 5, 2005, the Company signed a promissory note (the "Note") based on the terms of a loan agreement (the "Loan Agreement") with Wachovia Bank, N.A. The Loan Agreement provides a \$5,000,000 line of credit (the "Line") from which the Company may borrow from time to time as deemed necessary. The Note carries an interest rate of 1.35% plus the one-month LIBOR (5.3% as of June 30, 2007). The Company had no outstanding borrowings as of June 30, 2007. The Note is due and payable in consecutive monthly payments of accrued interest only commencing on December 5, 2005, and continuing on the same day of each month thereafter until fully paid. In any event, the Note is due and payable in full on November 5, 2007, including all principal and accrued interest. In connection with the Note, the Company has agreed to maintain certain liquidity requirements as covered in the Loan Agreement. As of June 30, 2007, the Company is in compliance with the Loan Agreement.

## MCNC AND AFFILIATE

### Notes to Financial Statements, Continued

June 30, 2007 and 2006

(5) Line of Credit, Continued

The Company has renewed the Note until November 2008 in order to service working capital needs.

(6) Employee Retirement Plan

The Company has a qualified, defined-contribution retirement plan (the "Plan") that is tax-exempt under Section 401(a) of the Internal Revenue Code and covers substantially all employees. The Company contributes 10% of each employee's post-deferral compensation to the Plan. Employer contributions vest ratably over a five-year period. Total contributions made by the Company related to the Plan were approximately \$309,000 and \$271,000 in 2007 and 2006, respectively.

(7) Commitments and Contingencies and Litigation

The Company is, from time to time, subject to routine litigation incidental to its business. The Company is not a party to any pending legal proceedings that it believes will have a material adverse effect on the Company's financial condition.

The Company was named in a lawsuit filed November 24, 2003, in which the plaintiff alleged that the Company violated certain provisions of a prior Development and License Agreement between the parties. On May 5, 2004, the District Court issued a ruling ordering the Company to arbitrate the plaintiff's claim against the Company with the American Arbitration Association (*MedCam, Inc. v. MCNC*, No. 50 T 133 00573 03). The arbitration hearing took place in September 2006, and in November 2006, the arbitrator found for MCNC and against MedCam on all counts. As of June 30, 2006, the Company had accrued for all legal costs associated with defending this lawsuit during 2007.

During 2004, the Company made a filing with the Internal Revenue Service (IRS) pursuant to the Voluntary Correction Program pursuant to the IRS Procedure 2003-44 regarding potential qualification issues to its qualified retirement plan. In December 2005, a resolution was reached with the IRS pursuant to a Compliance Statement preserving the qualified status of the retirement plan, subject to the Company's taking appropriate corrective action. The Company completed all corrective actions in 2006 and had accrued for its estimated remaining costs to be remitted to taxing authorities as of June 30, 2006.

**BATCHELOR, TILLERY & ROBERTS, LLP**

CERTIFIED PUBLIC ACCOUNTANTS

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RALEIGH, NORTH CAROLINA 27619

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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*

The Boards of Directors  
MCNC and Affiliate:

We have audited the financial statements of MCNC and Affiliate (the "Company") as of and for the year ended June 30, 2007, and have issued our report thereon dated December 17, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United State of America as established by the Auditing Standards Board of the American Institute of Certified Public Accountants 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 Company's internal control over financial reporting as a basis for designing 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 Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over financial reporting.

A control deficiency 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 significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Company's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Company's financial statements that is more than inconsequential will not be prevented or detected by the Company's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Company's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 Company's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, the Company's management, and state awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

*Batchelor, Jilley & Roberts, LLP*

December 17, 2007



**BATCHELOR, TILLERY & ROBERTS, LLP**

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**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133  
AND THE STATE SINGLE AUDIT IMPLEMENTATION ACT**

The Board of Directors  
MCNC and Affiliate:

Compliance

We have audited the compliance of MCNC and Affiliate (the "Company") (a nonprofit organization) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal and state programs for the year ended June 30, 2007. The Company's major federal and state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major programs are the responsibility of Company's management. Our responsibility is to express an opinion on the Company's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about the Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Company's compliance with those requirements.

In our opinion, the Company complied, in all material respects, with the requirements referred to above that are applicable to its major federal and state programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the Company is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal and state programs. In planning and performing our audit, we considered the Company's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal or state program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal or state program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal or state program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented or detected by the entity's internal control. Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management, and federal or state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Batchelor, Tillery & Roberts, LLP*

December 17, 2007

MCNC AND AFFILIATE

Expenditures of State Awards

Year ended June 30, 2007

Project No.	Funding Source	Federal/State Program	CFDA No.	Prime Contract	Expenditures
40005	UNC-GA	U.S. state governments	NONE	NA	\$ 6,831,328
22102	Various universities	U.S. state governments	NONE	NA	953,065
22101	Various universities	U.S. state governments	NONE	NA	753,945
10167	Various universities	U.S. state governments	NONE	Various	689,926
22103	NCSU - Friday Institute	U.S. state governments	NONE	EP4437818	427,135
22108	Various universities	U.S. state governments	NONE	NA	347,093
10250	Various universities	U.S. state governments	NONE	NA	172,707
22109	Various universities	U.S. state governments	NONE	NA	139,881
10270	UNC-Chapel Hill	U.S. state governments	NONE	NA	95,562
22107	Various universities	U.S. state governments	NONE	NA	87,723
22105	Various universities	U.S. state governments	NONE	NA	40,712
10277	University of Virginia	U.S. state governments	NONE	NA	37,151
Total expenditures of state awards					\$ 10,576,228

## MCNC AND AFFILIATE

### Notes to the Schedule of Expenditures of State Awards

June 30, 2007

(1) Scope of Audit Pursuant to OMB Circular A-133

All state grant operations of MCNC and Affiliate (the "Company") are included in the scope of the Office of Management and Budget (OMB) Circular A-133 audit (the Single Audit). Monies expended from grants through the North Carolina State Government (the State) are included in the scope of the revised OMB Circular A-133. The Single Audit was performed in accordance with the provisions of the OMB *Circular A-133 Compliance Supplement* (revised March 2007, the Compliance Supplement). Compliance testing of all requirements, as described in the Compliance Supplement, was performed for the award program noted below. This program represents all state award programs with fiscal 2007 cash expenditures in excess of 3% of total state expenditures to ensure coverage of at least 25% of state awarded funds. All state awards are clustered under the research and development program and were tested in the aggregate.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying Schedule of Expenditures of State Awards includes all state awards to the Company that had activity during 2007. This schedule has been prepared on the accrual basis of accounting. Contract revenues are recorded for financial reporting purposes when the Company has met the qualifications for the respective contract.

(b) Accrued and Deferred Reimbursement

Various reimbursement procedures are used for state awards received by the Company. Consequently, timing differences between expenditures and program reimbursements can exist at the beginning and end of the year. Accrued balances at year-end represent an excess of reimbursable expenditures over cash receipts to date. Deferred balances at year-end represent an excess of cash receipts over reimbursable expenditures to date. Generally, accrued or deferred balances caused by differences in the timing of cash receipts and expenditures will be reversed in the remaining award period.

(3) Findings of Noncompliance

There were no findings of noncompliance identified in connection with the 2007 Single Audit.

## MCNC AND AFFILIATE

## Findings and Questioned Costs

Year ended June 30, 2007

**SECTION I-Summary of Auditors' Results***Financial Statements*

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes        X   No
- Significant deficiency(ies) identified that  
are not considered to be material weaknesses \_\_\_\_\_ Yes        X   None reported

Noncompliance material to financial statements  
noted? \_\_\_\_\_ Yes        X   No

*State Awards*

Internal control over major state programs:

- Material weakness(es) identified? \_\_\_\_\_ Yes        X   No
- Significant deficiency(ies) identified that  
are not considered to be material weaknesses \_\_\_\_\_ Yes        X   None reported

Noncompliance material to state awards? \_\_\_\_\_ Yes        X   No

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are  
required to be reported in accordance  
with the Audit Manual for Governmental  
Auditors in North Carolina \_\_\_\_\_ Yes        X   No

Identification of major programs:

Name of State Program or Cluster

Research and Development Cluster

**SECTION II-Financial Statement Findings**

No matters were reported.

**SECTION III-State Award Findings and Questioned Costs**

No matters were reported.

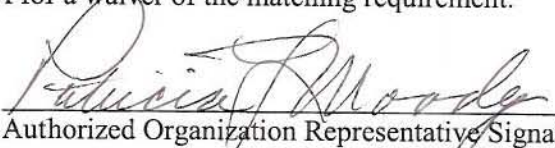
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**U.S. Department of Commerce**  
**Broadband Technology Opportunities Program**  
**Authentication and Certifications**

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1. I certify that I am the duly Authorized Organization Representative (AOR) of the applicant organization, and that I have been authorized to submit the attached application on its behalf.
2. I certify that I have examined this application, that all of the information and responses in this application, including certifications, and forms submitted, all of which are part of this grant application, are material representations of fact and true and correct to the best of my knowledge, that the entity(ies) that is requesting grant funding pursuant to this application and any subgrantees and subcontractors will comply with the terms, conditions, purposes, and federal requirements of the grant program; that no kickbacks were paid to anyone; and that a false, fictitious, or fraudulent statements or claims on this application are grounds for denial or termination of a grant award, and/or possible punishment by a fine or imprisonment as provided in 18 U.S.C. §1001 and civil violations of the False Claims Act.
3. I certify that the entity(ies) I represent have and will comply with all applicable federal, state, and local laws, rules, regulations, ordinances, codes, orders and programmatic rules and requirements relating to the project. I acknowledge that failure to do so may result in rejection or deobligation of the grant or loan award. I acknowledge that failure to comply with all federal and program rules could result in civil or criminal prosecution by the appropriate law enforcement authorities.
4. I certify that the entity(ies) I represent has and will comply with all applicable administrative and federal statutory, regulatory, and policy requirements set forth in the Department of Commerce Pre-Award Notification Requirements for Grants and Cooperative Agreements ("DOC Pre-Award Notification"), published in the Federal Register on February 11, 2008 (73 FR 7696), as amended; DOC Financial Assistance Standard Terms and Conditions (Mar. 8, 2009); the Department of Commerce American Recovery and Reinvestment Act Award Terms (Apr. 9, 2009); and any Special Award Terms and Conditions that are included by the Grants Officer in the award.
5. I certify that any funds awarded to the entity(ies) I represent as a result of this application will not result in any unjust enrichment of such entity(ies) or duplicate any funds such entity(ies) receive under federal universal service support programs administered by the Universal Service Administrative Corporation (USAC).
6. I certify that the entity(ies) I represent has secured access to pay the 20% of total project cost or has petitioned the Assistant Secretary of NTIA for a waiver of the matching requirement.

3-3-10  
Date

  
Authorized Organization Representative Signature

Patricia L. Moody  
Print Name

Chief Financial Officer, Treasurer, Secretary  
Title



# Comprehensive Community Infrastructure Budget Narrative Template

**Applicant Name: MCNC**

**EasyGrants Number: 4218**

**Organization Type: Non-profit 501(c)(3)**

**Proposed Period of Performance: 9/30/10 – 9/30/13**

**Total Project Costs: \$111,654,323**

**Total Federal Grant Request: \$ 77,977,126**

**Total Matching Funds (Cash): \$ 28,221,197**

**Total Matching Funds (In-Kind): \$ 5,456,000**

**Total Matching Funds (Cash + In-Kind): \$ 33,677,197**

**Total Matching Funds (Cash + In-Kind) as Percentage of Total Project Costs: 30.16%**

## **1. Administrative and legal expenses - \$757,080**

**MCNC considers salary information to be proprietary and has therefore hidden employees rate information on the below. If this proceeds to due diligence this information will be provided at that time. Note: the hours shown are the rate equivalent hours: \$50 \* 40 hrs = \$200, if the person actually works 80 hours that week their apparent hourly rate is \$25/hr. For this schedule the rate has been left intact and their hours flexed (rate equivalent hours) to match the actual cost estimated on the BTOP proposal process.**

Labor:

Title	Hrly Rate	Rate Equivalent Hours	Total 1/22-Submission
Lead Systems Engineer		16.00	
Operations Manager		12.76	
Paralegal		109.71	
Communications Associate		29.00	
President		107.86	
Manager Client Network Engineering		8.48	
K12 Advocate		5.23	



**BROADBAND TECHNOLOGY OPPORTUNITIES PROGRAM (BTOP)**

Director Human Resources		65.78	
Manager Knowledge Information Systems		209.36	
Chief Architect		195.39	
Chief Technical Officer		151.80	
VP Community Support		136.23	
Director Program Management		236.37	
Associate Video Network Operator		2.20	
Chief Financial Officer		114.09	
Director Advanced Services Development		29.40	
Director of Communications		32.00	
Senior Advanced Services Systems Analyst		187.81	
Senior Network Management Engineer		32.00	
Senior Lead Network Engineer		154.56	
ERC Level 1 Labor		280.00	
ERC Level 2 Labor		240.00	
Temp Labor			
Documentation and Web Content Manager		16.00	
		<u>2,372.03</u>	<u>210,580</u>

Legal:

Due Diligence/title search on donated conduit & other compliance advice			75,000
External counsel estimates to prepare/review federally compliant documents for two entities:			180,000
Engineering RFP			
Engineering Contract			
Construction RFP			
Construction Contract			
Equipment RFP			
IRU			
Sub-recipient Agreement			
Fiber Swap Agreement			
O&M Agreement			

A133 Audit:

2 entities 3 years rate quote from external auditor	6	4,500.00	27,000
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Consultants:

BBCGI	statistics		48,000
UNC-CH School of Government	mapping		5,000
UNC-CH Kenan Institute	community outreach/data analysis		185,000
	service provider analysis/mapping		
e-NC	support		3,000
ONUG	route estimates		20,000

Travel/Meetings/Workshops:

3,500

Total Administrative and Legal Expenses

757,080





**2. Land, structure, rights-of-way, appraisals, etc. - \$3,401,000**

	Unit Cost	Qty	Total
Controlled Environment for placement at amplification sites	85,000	23	1,955,000
Environment controlled optical enclosure	100,000	2	200,000
DC Distribution System to Power POP Elements	4,000	24	96,000
Land Acquisition	40,000	20	800,000
Land Acquisition	50,000	3	150,000
Land Acquisition	100,000	2	200,000
Total			3,401,000

**- In-kind matching - \$710,000 - MCNC has received letters from both the University of North Carolina System and the North Carolina Community College System offering donations of the use of their facilities where amplification sites will be needed. MCNC currently expects to be able to use 19 donated sites, but included only 17 as in-kind donated in the proposal. A review of each facility will be needed prior to a final count being known. Where possible, MCNC plans to utilize these donated sites.**

**3. Relocation expenses and payment - \$0**

**4. Architectural and engineering fees - \$8,047,309**

**The engineering and project management fees were derived through consultation with industry experts. Some miles are pure construction, while some require simply the addition of fiber into conduit with some conduit repair. The specific estimated route which was mapped to maximize direct fiber connections to Community Anchor Institutions. The route through the various counties and the estimates of miles route were derived from physical drives of roads included in the route and via detailed mapping (details available upon request-see detail project budget). The total of the routes produce a weighted average rate of \$1.0905/ft of build. Specific routes total \$7,597,309 of engineering and professional project management and quality control fees.**

**To this, environmental assessment fees of \$450,000 were added which represents industry standard experience of costs over 4 long regions at \$100,000 each and 1 short build at \$50,000.**

**- MCNC has received commitments of \$28,221,197 in cash match. This match was not provided for specific line items, but for the project’s match needs. Preference would have been to proportion the match over every line item, but the detailed**



budget spreadsheet did not allow that capability, so MCNC chose to apply it to the construction and architectural categories using the highest cost line items. The architectural and engineering fees category thereby ended up being the recipient of \$134,272 of the cash match.

**5. Other architectural and engineering fees - \$0**

**6. Project inspection fees - \$7,205**

- MCNC's sub-recipient partner, ERC has provided for \$0.50 per mile (government value) for mileage reimbursement for 14,410 miles. This is the total miles required to rideout each build multiple times (during construction and upon completion) for inspection purposes.

**7. Site work - \$0**

**8. Demolition and removal - \$0**

**9. Construction - \$92,269,794**

-MCNC used a range of \$.7/ft - \$.86/ft for armoured cable (based on number of strands), \$.93/ft to install the fiber into the conduit, \$1.31/ft for conduit, \$5.71/ft for conduit installation, hand holds (installed) at \$1,036/2,000ft, pole attachment applications at \$100 each, Pole attachments at \$660 - \$1,531 each, easements at \$6/ft, splicing at \$1,075/18,000 ft plus railroad permits at \$8,000 - \$10,000 per crossing plus easements. These amounts were derived by MCNC's work with industry experts. Based on the mapped routes by each region's specific needs of the above and railroad crossings, easements, and permits a fairly precise estimate by region was derived. A weighted average rate for the overall build of is \$11.4332/foot. This amounts to \$79,654,923 of the construction. Details by region are available upon request. In addition to the construction, in those areas where IRUs were available that supported the desired route, MCNC negotiated letters of intent for its procurement of IRUs as part of the NCRBI. MCNC's proposal includes a

conduit purchased from P&W for [REDACTED] and donated conduit valued at \$4,746,000 (see in-kind match paragraph below). The total of these items is \$92,269,794. These IRUs are evidence of the NCRBI exhausting every means to avoid overbuilding existing fiber.

- MCNC has received commitments of \$28,221,197 in cash match. This match was not provided for specific line items, but for the project's overall benefits. Preference would have been to proportion the match over every line item, but the detailed budget spreadsheet does not provide that capability so MCNC chose to



**apply it to the construction and architectural categorizes using the highest cost lines items for the most part. The Construction category thereby ended up being the recipient of \$28,086,925 of the cash match.**

**- The Albemarle Pamlico Economic Development Corporation (APEC), a public economic development organization, has donated existing fiber optic conduit in the northeast region of the state to MCNC. This conduit is a key part of the NCRBI plan. The conduit remained unused as the financial resources to complete a previously planned middle mile project in the region could not be raised. The previous project exhausted funds in 2004 after much of the conduit had been constructed but no fiber had been placed. The NCRBI, if funded, will assist in meeting the original purpose of the conduit, to build a middle mile in the northeast. This is an in-kind match valued at \$4,746,000. The value was derived by taking the cost of burying new conduit. Additional costs were added to blow fiber in and any necessary repairs. But for this conduit this proposal would have had to include more costly new construction.**

**10. Equipment - \$6,971,935**

**- MCNC’s proposal includes the following equipment. MCNC’s current plans are to purchase each item. If MCNC were to receive an award, if a lower cost lease option is identified, it would be favorably considered. The equipment budget was developed based on MCNC’s installed base of Cisco DWDM equipment with which we were most familiar. Our intent is to use a competitive procurement process and select the best value. As such the specific components installed may differ from those shown here.**

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Description	Unit Cost	Qty	Total
Managed Media Converter	350	8	\$2,800
HP switches	\$500.00	14	\$7,000
CAI UPS	700	101	\$70,700
CAI-Installation of Equipment by MCNC	\$1,500.00	146	\$219,000
CAI Site Access SFP	\$1,680.00	161	\$270,480
XENpak expansion card	\$2,000.00	2	\$4,000
CAI-Router for Libraries, CC Satellite Sites,3400	\$2,100.00	71	\$149,100
15454 Optics for connection to fiber	\$2,520.00	151	\$380,520
Channelized SFPs	\$3,800.00	16	\$60,800
Cisco DWDM SFP	3800	8	\$30,400
Distribution / trunk switch	\$4,000.00	2	\$8,000
OSA/10GE flex	\$4,000.00	1	\$4,000
Backbone-Installation of Equipment by MCNC staff	\$5,000.00	21	\$105,000
GE Test Equipment	\$5,000.00	1	\$5,000
DWDM Handheld JDSU	\$6,000.00	1	\$6,000
Cisco 15216 Mux Demux	\$10,674.00	2	\$21,348
CAI-Router for Community Colleges Main Sites-3560	\$13,608.00	23	\$312,984
10Gbase-ZR XEN Pak	\$22,110.00	2	\$44,220
Staff Truck for Deployment	\$25,000.00	2	\$50,000
Crossponders	\$32,000.00	1	\$32,000
Crossponders for Ring Access at DWDM nodes, common 10G ring	\$32,000.00	37	\$1,184,000

**BROADBAND TECHNOLOGY OPPORTUNITIES PROGRAM (BTOP)**

Backbone-Common Elements to make Hickory, NC existing DWDM system 3-degree ROADM	\$37,000.00	1	\$37,000
Backbone-Common Elements to make Rocky Mount, NC existing DWDM system 3-degree ROADM	\$37,000.00	1	\$37,000
Backbone-Common Elements to make Wilmington, NC existing DWDM system 3-degree ROADM	\$37,000.00	1	\$37,000
Spare Crossponder equipment	\$37,930.00	1	\$37,930
Spare Transponder	\$37,930.00	1	\$37,930
Backbone-Common Elements to convert DWDM Node in Asheville to 3 Degree Crossponder	\$40,000.00	1	\$40,000
MultiRate Transponders	\$40,225.00	10	\$402,250
Backbone Common Elements required to incorporate BTOP round 2 transport at Western Ring in Charlotte	\$40,225.00	2	\$80,450
Backbone Common Elements required to incorporate BTOP round 2 transport on Eastern Ring in Rocky Mount	\$42,000.00	1	\$42,000
OSN 15454 – Burnsville	\$42,000.00	1	\$42,000
OSN 15454 – MH	\$71,608.75	1	\$71,609
OSN 15454 – HVL	\$71,608.75	1	\$71,609
OSN 15454 – HVL	\$73,230.00	1	\$73,230
Backbone-Common Elements to make Charlotte-Myer's, NC existing DWDM system 4-degree ROADM	\$74,000.00	1	\$74,000
Backbone-Common Elements for new Ahoskie, NC DWDM Node at Roanoke-Chowan CC Campus	\$80,000.00	1	\$80,000
Backbone-Common Elements for new Burnsville, NC Regeneration Site	\$80,000.00	1	\$80,000
Backbone-Common Elements for new Columbia, NC DWDM Node	\$80,000.00	1	\$80,000
Backbone-Common Elements for new Dodson, NC DWDM Node at Surry CC Campus	\$80,000.00	1	\$80,000
Backbone-Common Elements for new Hamlet, NC DWDM node at Richmond CC Campus	\$80,000.00	1	\$80,000
Backbone-Common Elements for new Kitty Hawk, NC DWDM Node	\$80,000.00	1	\$80,000
Backbone-Common Elements for new Lumberton, NC DWDM Node at UNC-Pembroke Campus	\$80,000.00	1	\$80,000
Backbone-Common Elements for new Polkton, NC DWDM Node at South Piedmont CC Campus	\$80,000.00	1	\$80,000
Backbone-Common Elements for new Reidsville, NC DWDM Node at Rockingham CC Campus	\$80,000.00	1	\$80,000
Backbone-Common Elements for new Roanoke Island, NC DWDM Node	\$80,000.00	1	\$80,000
Backbone-Common Elements for new Roxboro, NC DWDM Node at Piedmont CC Campus	\$80,000.00	1	\$80,000
Backbone-Common Elements for new Sanford, NC DWDM node at Central CC Campus	\$80,000.00	1	\$80,000
Backbone-Common Elements for new Sparta, NC DWDM Node at Wilkes CC-Alleghaney Campus	\$80,000.00	1	\$80,000
Backbone-Common Elements for new Weldon, NC DWDM Node at Halifax CC Campus	\$80,000.00	1	\$80,000
Backbone-Common Elements for new Whiteville, NC DWDM Node at Southeast CC Campus	\$80,000.00	1	\$80,000
Backbone-Common Elements to make Franklin County DWDM Node	\$80,000.00	1	\$80,000
New DWDM Node in Robbinsville	\$80,000.00	1	\$80,000
New DWDM Node in Robbinsville	\$80,000.00	1	\$80,000
OSN 15454 – Nebo	\$82,480.00	1	\$82,480
Spare 15454 equipment	\$106,942.50	1	\$106,943
Backbone Common Elements required to incorporate BTOP round 2 transport at Central Ring in Raleigh, Level3	\$113,400.00	1	\$113,400
OSN 15454 – AVL	\$118,512.50	1	\$118,513
Backbone-Common Elements for new Boone, NC DWDM Node at Appalachian State University	\$125,000.00	1	\$125,000
Backbone-Common Elements for new Elizabeth City, NC DWDM Node at	\$125,000.00	1	\$125,000



Elizabeth City State University			
Backbone-Common Elements for new Henderson, NC DWDM Node	\$125,000.00	1	\$125,000
Backbone-Common Elements for new Williamston, NC DWDM Node at Martin CC	\$125,000.00	1	\$125,000
CAI-Common elements for NCRC Site to serve Rowan Cabarrus CC	\$125,000.00	1	\$125,000
Spares	\$126,000.00	1	\$126,000
Cisco 7609	\$154,120.00	2	\$308,240
Total			\$6,971,935

**11. Miscellaneous - \$200,000**

**- MCNC’s proposal includes fiber asset tracking software, operational management tools, and geographic information systems software. These items are estimated at \$200,000.**

**13. Contingencies - \$0**

**- Contingencies are an unallowable expenditures under BTOP.**

**15. Project (program) income - \$0**

**- The value for this line-item on the SF-424C is \$0. Please do not provide an estimated Project (program income) on the SF-424C.**

## **BTOP Comprehensive Community Infrastructure Project Plan and Build-out Timeline**

Please complete the Project Plan and Build-out Timeline templates below. Note that these templates may be modified by applicants in order to provide the most effective presentation of the data for their specific project. Applicants should ensure, however, that they provide at least as much detail as the provided templates require.

For system stability reasons, it is recommended that you provide this upload in PDF format. This instruction page need not be included in the upload.

## PROJECT PLAN

- Use the following table to list the major network build-out phases and milestones that can demonstrate that your entire project will be substantially complete by the end of Year 2 and fully complete by the end of Year 3. This is to be done at the aggregate level (combining all proposed funded service areas.)
- Indicated how the milestones listed below will demonstrate these completion objectives. The applicant should consider such project areas as: a) network design; b) securing all relevant licenses and agreements; c) site preparation; d) inside plant deployment; e) outside plan deployment; f) deployment of business & operational support systems; g) network testing; f) network operational. The applicant may provide any other milestones that it believes showcase progress.
- Project inception (Year 0) starts at the date when the applicant receives notice that the project has been approved for funding.
- In the table, provide any information (e.g., facts, analysis) to: a) demonstrate the reasonableness of these milestones; b) substantiate the ability to reach the milestones by the quarters indicated.

Time Period	Quarter	Milestones	Support for Reasonableness/Data Points
Year 0	-	<ul style="list-style-type: none"> <li>• Release of route engineering RFP for entire network</li> <li>• Release of environmental assessment RFP for entire network</li> </ul>	<ul style="list-style-type: none"> <li>• RFP from MCNC round 1 application for engineering and environmental assessment that was released will be modified as appropriate to support the round 2 award. Given this RFP has previously been reviewed by internal staff and external legal, the turn around should be quick.</li> </ul>
Year 1	Qtr. 1	<ul style="list-style-type: none"> <li>• Award of engineering and EA RFP for all areas of the build.</li> </ul>	<ul style="list-style-type: none"> <li>• RFP will be ready to release at award and contract signing with NTIA, meaning that award should be able to happen within first 90 days of award.</li> </ul>
	Qtr. 2	<ul style="list-style-type: none"> <li>• Completion of environmental assessment</li> <li>• Release of RFP for construction contracts</li> </ul>	<ul style="list-style-type: none"> <li>• Award criteria for round 1 required EA to be completed within 6 months of award, therefore we expect that requirement will hold true in round 2 awards and position ourselves to do so.</li> <li>• Awarded engineering firm will be required to help draft construction RFP and this will occur toward end of quarter 2 as route engineering nears completion</li> </ul>
	Qtr. 3	<ul style="list-style-type: none"> <li>• Execution of 20 year IRU with Blue Ridge Electric for 90 miles of fiber from Lenoir, NC to Boone, NC</li> <li>• Execution of 20 year IRU with AGL Networks for metro</li> </ul>	<ul style="list-style-type: none"> <li>• Business terms of IRU acquisition have been agreed to and formalized under signed Letter of Intent with Blue Ridge Electric. Business terms of IRU acquisition have</li> </ul>

		<p>fibers in Charlotte to serve UNCC and CPCC</p> <ul style="list-style-type: none"> <li>• Execution of [REDACTED] for metro fibers to NCRC in Kannapolis to serve Rowan-Cabarrus CC and NCRC.</li> <li>• All routes will be fully engineered by first part of quarter 3. A firm or employee will be hired to provide project management oversight for each region, thus allowing all four areas to begin at once. MCNC will provide oversight in the south central, north central, and north east, as well as lateral construction to those CAI's served off of the BTOP round 1 award areas, while as noted ERC manages the northwest.</li> <li>• Construction begins in south central region.</li> <li>• Evaluation of equipment vendor and selection of equipment platform chosen.</li> <li>• Construction in ERC area of northwest begins in Avery and Buncombe Counties. ERC, as a sub-recipient, will be managing this area of North Carolina.</li> <li>• Construction begins and is completed on [REDACTED] of fiber construction in [REDACTED] Co. to tie in to [REDACTED] fibers connecting back to Webster/Sylva area of NC to tie in to MCNC BTOP1 built fibers.</li> <li>• Execution of [REDACTED] for fibers in their service area in western North Carolina.</li> <li>•</li> </ul>	<p>been agreed to and formalized under signed [REDACTED]</p> <ul style="list-style-type: none"> <li>• Engineering work typically occurs at the rate of 3 miles per day. We will request of the firm selected to devote two engineers for the project meaning it will take approximately 125 business days to complete the approximately 750 miles of backbone trunk fiber across the state. The regions to be completed in order will be south central, north central, and northeast. As engineering for a region is completed we can release construction RFP's.</li> <li>• Ongoing dialogue with equipment vendors is occurring and will be broadened to include new BTOP2 opportunity.</li> </ul>
	Qtr. 4	<ul style="list-style-type: none"> <li>• Construction begins in north central region</li> <li>• DWDM equipment RFP released for Hickory to Boone span acquired under IRU.</li> <li>• Construction completed by ERC in Buncombe region of NW.</li> </ul>	<ul style="list-style-type: none"> <li>• Standard RFP's for equipment will have been issued for round 1 and can be adjusted as needed quickly to allow for procurement of equipment in a timely fashion.</li> </ul>
Year 2	Qtr. 1	<ul style="list-style-type: none"> <li>• Construction begins in northeast region.</li> <li>• Hickory to Boone Optical DWDM span deployed</li> </ul>	<ul style="list-style-type: none"> <li>• MCNC has experience deploying spans of this type of equipment. Hickory to Boone can be completed in about two weeks once receiving equipment in late FY1, Q4.</li> </ul>
	Qtr. 2		<ul style="list-style-type: none"> <li>• Same crews deployed in the region for long haul can be</li> </ul>



		<ul style="list-style-type: none"> <li>• South central laterals engineered and constructed</li> <li>• South central CPE ordered</li> <li>• ERC begins construction in Madison region of northwest.</li> </ul>	utilized to build to CAI locations as required.
	Qtr. 3	<ul style="list-style-type: none"> <li>• South central construction is completed early in the quarter.</li> <li>• South central and north central optical DWDM equipment RFP released and ordered.</li> <li>• North central construction is completed late in the quarter.</li> <li>• Deployment of south central DWDM network nodes late in the quarter.</li> <li>• ERC completes construction in Avery Co. area of western NC and deploys equipment.</li> </ul>	<ul style="list-style-type: none"> <li>• One crew is typically in this terrain able to construct at the rate of 5000 ft/day. We anticipate two construction crews committed to this job in the south central completing 10000 ft/day, resulting in a build period of approximately 180 days for the approximately 350 miles of fiber in the south central regions from Charlotte-Wilmington and Hamlet to Raleigh.</li> <li>• MCNC will be able to draw upon RFP's created from round 1 award to have these quickly ready to go as warranted.</li> <li>• With two crews dedicated to this region achieving 10,000 feet per day on average, the region would be complete in 108 days assuming no problems. Allowing for some bad weather days, we anticipate about 4 full quarters of construction to complete this section in the north central.</li> <li>• MCNC has previously engineered long haul fiber routes. Once completed deployment typically takes four weeks and should be the case on south central network.</li> </ul>
	Qtr. 4	<ul style="list-style-type: none"> <li>• North central laterals engineering and constructed</li> <li>• Deployment of north central DWDM network nodes</li> <li>• Deployment of south central CAI connection's</li> <li>• ERC begins construction of McDowell Co. build of northwestern region.</li> <li>• ERC finishes construction and deploys equipment in Madison Co. of northwest region.</li> </ul>	<ul style="list-style-type: none"> <li>• Same crews deployed in the region for long haul can be utilized at CAI locations as required.</li> <li>• MCNC has previously engineered long haul fiber routes. Once fiber construction completed, and deployment typically takes on average four weeks and should be the case on north central route.</li> <li>• MCNC will have ramped up staff in such a fashion that CAI site deployment can occur at the rate of one per day as required.</li> </ul>
Year 3	Qtr. 1	<ul style="list-style-type: none"> <li>• North east construction is completed</li> <li>• North east optical DWDM equipment RFP released and ordered</li> <li>• Lateral construction to all northeast CAI's begins and is</li> </ul>	<ul style="list-style-type: none"> <li>• With two crews dedicated to this region achieving 10,000 feet per day on average, the north east region build of approximately 467 miles would be complete in approximately 250 business days with no construction</li> </ul>

		<p>completed.</p> <ul style="list-style-type: none"> <li>• Deployment of north central CAI connection's</li> </ul>	<p>problems encountered. We would expect construction to be complete by the end of this quarter.</p> <ul style="list-style-type: none"> <li>• Northeast optical DWDM equipment RFP released and ordered after route is verified using standard equipment RFP that is now developed.</li> <li>• Same crews deployed in the northeast region for long haul can be utilized at CAI locations as required.</li> <li>•</li> </ul>
	Qtr. 2	<ul style="list-style-type: none"> <li>• Deployment of northeast DWDM network nodes.</li> </ul>	<ul style="list-style-type: none"> <li>• MCNC has previously engineered long haul fiber routes. Once completed, deployment typically takes four weeks and could be completed in this quarter for the northeast project.</li> </ul>
	Qtr. 3	<ul style="list-style-type: none"> <li>• Deployment of northeast CAI connection's</li> <li>• ERC completes build of McDowell region and deploys equipment.</li> </ul>	<ul style="list-style-type: none"> <li>• Deployment of north central CAI's can happen at the rate of not less than one per day as staff has now been ramped up.</li> </ul>
	Qtr. 4	<ul style="list-style-type: none"> <li>• Project wrap up and documentation.</li> </ul>	<ul style="list-style-type: none"> <li>•</li> </ul>



Community Anchor Institutions												742	
Percentage of Total Institutions												100%	

Service Area	South Central Region												
	YEAR 0	YEAR 1				YEAR 2				YEAR 3			
		Qtr. 1	Qtr. 2	Qtr. 3	Qtr. 4	Qtr. 1	Qtr. 2	Qtr. 3	Qtr. 4	Qtr. 1	Qtr. 2	Qtr. 3	Qtr. 4
Infrastructure Funds													
Infrastructure Funds Advanced (estimate)		\$330,133	\$882,403	\$8,998,891	\$3,436,195	\$3,736,196	\$4,300,741	\$3,485,107	740,586	\$0	\$0	\$0	\$0
Percentage of Total Funds		1.27%	3.41%	34.73%	13.26%	14.42%	16.60%	13.45%	2.86%	0.00%	0.00%	0.00%	0.00%
Entities Passed & %									100%				
Households									1,129,147				
Percentage of Total Households									100%				
Businesses									90,292				
Percentage of Total Businesses									100%				
Community Anchor Institutions									1,602				
Percentage of Total Institutions									100%				



Service Area	Northwest Region, MCNC												
	YEAR 0	YEAR 1				YEAR 2				YEAR 3			
		Qtr. 1	Qtr. 2	Qtr. 3	Qtr. 4	Qtr. 1	Qtr. 2	Qtr. 3	Qtr. 4	Qtr. 1	Qtr. 2	Qtr. 3	Qtr. 4
Infrastructure Funds													
Infrastructure Funds Advanced (estimate)	\$0	\$0	\$0	\$0	\$1,069,200	\$0	\$0	\$120,000	\$0	\$0	\$0	\$0	
Percentage of Total Funds	0.00%	0.00%	0.00%	0.00%	89.91%	0.00%	0.00%	10.09%	0.00%	0.00%	0.00%	0.00%	
Entities Passed & %													
Households								100%					
Percentage of Total Households								6,532					
Businesses								612					
Percentage of Total Businesses								100%					
Community Anchor Institutions								31					
Percentage of Total Institutions								100%					



Service Area	North Central Region												
	YEAR 0	YEAR 1				YEAR 2				YEAR 3			
		Qtr. 1	Qtr. 2	Qtr. 3	Qtr. 4	Qtr. 1	Qtr. 2	Qtr. 3	Qtr. 4	Qtr. 1	Qtr. 2	Qtr. 3	Qtr. 4
Infrastructure Funds													
Infrastructure Funds Advanced (estimate)	\$0	\$148,000	\$4,326,466	\$5,091,781	\$1,804,265	\$2,587,265	\$2,787,480	\$3,090,685	\$45,000	\$0	\$0	\$0	\$0
Percentage of Total Funds	0.00%	0.74%	21.76%	25.61%	9.08%	13.01%	14.02%	15.55%	0.23%	0.00%	0.00%	0.00%	0.00%
Entities Passed & %										100%			
Households										206,768			
Percentage of Total Households										100%			
Businesses										10,841			
Percentage of Total Businesses										100%			
Community Anchor Institutions										455			
Percentage of Total Institutions										100%			





Service Area	Aggregate Total												
	YEAR 0	YEAR 1				YEAR 2				YEAR 3			
		Qtr. 1	Qtr. 2	Qtr. 3	Qtr. 4	Qtr. 1	Qtr. 2	Qtr. 3	Qtr. 4	Qtr. 1	Qtr. 2	Qtr. 3	Qtr. 4
Infrastructure Funds													
Infrastructure Funds Advanced (estimate)		\$1,133,713	\$4,554,517	\$27,036,047	\$11,480,003	\$15,778,304	\$15,429,277	\$10,916,517	\$13,220,389	\$5,519,820	\$3,830,776	\$2,228,175	\$526,786
Percentage of Total Funds		1.02%	4.08%	24.21%	10.28%	14.13%	13.82%	9.78%	11.84%	4.94%	3.43%	2.00%	0.47%
Entities Passed & %	24.7%				25.1%				74.5%	83.2%		94.2%	100%
Households	580,330				588,821				1,724,500	1,931,268		2,185,104	2,320,485
Percentage of Total Households	25.1%				25.4%				74.3%	83.2%		94.2%	100%
Businesses	32,437				32,994				123,898	134,739		150,379	159,914
Percentage of Total Businesses	20.3%				20.6%				77.5%	84.3%		94%	100%
Community Anchor Institutions	931				976				2609	3064		3806	4066
Percentage of Total Institutions	24.7%				25.1%				74.5%	83.2%		94.2%	100%

**CERTIFICATIONS REGARDING DEBARMENT, SUSPENSION, INELIGIBILITY AND VOLUNTARY EXCLUSION-LOWER TIER COVERED TRANSACTIONS AND LOBBYING**

Applicants should refer to the regulations cited below to determine the certification to which they are required to attest. Applicants should also review the instructions for certification included in the regulations before completing this form. Signature on this form provides for compliance with certification requirements under 15 CFR Part 26, "Governmentwide Debarment and Suspension (Nonprocurement)" and 15 CFR Part 28, "New Restrictions on Lobbying."

**1. DEBARMENT, SUSPENSION, INELIGIBILITY AND VOLUNTARY EXCLUSION-LOWER TIER COVERED TRANSACTIONS**

As required by Executive Order 12549, Debarment and Suspension, and implemented at 15 CFR Part 26, Section 26.510, Participants responsibilities, for prospective participants in lower tier covered transactions (except subcontracts for goods or services under the \$25,000 small purchase threshold unless the subtier recipient will have a critical influence on or substantive control over the award), as defined at 15 CFR Part 26, Sections 26.105 and 26.110 -

(1) The prospective lower tier participant certifies, by submission of this proposal, that neither it nor its principals is presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from participation in this transaction by any Federal department or agency.

(2) Where the prospective lower tier participant is unable to certify to any of the statements in this certification, such prospective participant shall attach an explanation to this proposal.

**2 LOBBYING**

As required by Section 1352, Title 31 of the U.S. Code, and implemented at 15 CFR Part 28, for persons entering into a grant, cooperative agreement or contract over \$100,000 or a loan or loan guarantee over \$150,000 as defined at 15 CFR Part 28, Sections 28.105 and 28.110, the applicant certifies that to the best of his or her knowledge and belief, that:

(1) No Federal appropriated funds have been paid or will be paid, by or on behalf of the undersigned, to any person for influencing or attempting to influence an officer or employee of any agency, a Member of Congress, an officer or employee of Congress, or an employee of a Member of Congress in connection with the awarding of any Federal contract, the making of any Federal grant, the making of any Federal loan, the entering into of any cooperative agreement, and the extension, continuation, renewal, amendment, or modification of any Federal contract, grant, loan, or cooperative agreement.

(2) If any funds other than Federal appropriated funds have been paid or will be paid to any person for influencing or attempting to influence an officer or employee of any agency, a Member of Congress, an officer or employee of Congress, or an employee of a member of Congress in connection with this Federal contract, grant, loan, or cooperative agreement, the undersigned shall complete and submit Standard Form-LLL, 'Disclosure Form to Report Lobbying,' in accordance with its instructions.

(3) The undersigned shall require that the language of this certification be included in the award documents for all subawards at all tiers (including subcontracts, subgrants, and contracts under grants, loans, and cooperative agreements) and that all subrecipients shall certify and disclose accordingly.

This certification is a material representation of fact upon which reliance was placed when this transaction was made or entered into. Submission of this certification is a prerequisite for making or entering into this transaction imposed by section 1352, title 31, U.S. Code. Any person who fails to file the required certification shall be subject to a civil penalty of not less than \$10,000 and not more than \$100,000 for each such failure.

**Statement for loan Guarantees and Loan Insurance**

The undersigned states, to the best of his or her knowledge and belief, that:

If any funds have been paid or will be paid to any person for influencing or attempting to influence an officer or employee of any agency, a Member of Congress, an officer or employee of Congress, or an employee of a Member of Congress in connection with this commitment providing for the United States to insure or guarantee a loan, the undersigned shall complete and submit Standard Form-LLL, 'Disclosure Form to Report Lobbying,' in accordance with its instructions.

Submission of this statement is a prerequisite for making or entering into this transaction imposed by section 1352, title 31, U.S. Code. Any person who fails to file the required statement shall be subject to a civil penalty of not less than \$10,000 and not more than \$100,000 for each such failure.

As the duly authorized representative of the applicant, I hereby certify that the applicant will comply with the above applicable certification(s).

NAME OF APPLICANT

MCNC

AWARD NUMBER AND/OR PROJECT NAME

EG IO 4218 NC Rural Broadband Initiative

PRINTED NAME AND TITLE OF AUTHORIZED REPRESENTATIVE

Joseph Freddoso President and CEO

SIGNATURE

*Joseph Freddoso*

DATE

5-19-10