DOCKET E-100 SUB 37-A

NORTH CAROLINA ADVANCED ENERGY CORPORATION
RALEIGH, NORTH CAROLINA

FINANCIAL STATEMENTS AS OF
DECEMBER 31, 2019 AND
INDEPENDENT AUDITOR'S REPORT

NORTH CAROLINA ADVANCED ENERGY CORPORATION

CONTENTS

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May 29, 2020

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
North Carolina Advanced Energy Corporation

We have audited the accompanying financial statements of **North Carolina Advanced Energy Corporation** (the Corporation), which comprise the statement of financial position as of December 31, 2019 and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Carolina Advanced Energy Corporation as of December 31, 2019, and the results of its activities and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

McNair, McLemore, Middlebrooks & Co., LLC

McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

NORTH CAROLINA ADVANCED ENERGY CORPORATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2019

ASSETS

Current Assets		
Cash and Cash Equivalents	$	5,026,921
Accounts Receivable, Net		1,366,691
Prepaid Expenses and Other Current Assets		99,175
		6,492,787
Property and Equipment		
Furniture and Fixtures		289,008
Vehicles		102,238
Leasehold Improvements		747,160
Equipment		1,587,664
		2,726,070
Accumulated Depreciation		(2,521,151)
		204,919
Total Assets	$	6,697,706

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts Payable	$	88,894
Accrued Expenses		399,204
		488,098
Net Assets Without Donor Restrictions		
Unrestricted		6,209,608
Total Liabilities and Net Assets	$	6,697,706

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

NORTH CAROLINA ADVANCED ENERGY CORPORATION
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2019

	2019
Unrestricted Revenues	
Member Utility Funding	$ 3,910,255
Government Grants	60,025
Interest	90,272
Other Revenue	3,780,416
	7,840,968
Operating Expenses	
Advanced Energy Delivery	4,649,777
Corporate Services	2,306,588
	6,956,365
Changes in Net Assets Without Donor Restrictions	884,603
Net Assets Without Donor Restrictions, Beginning	5,325,005
Net Assets Without Donor Restrictions, Ending	$ 6,209,608

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

NORTH CAROLINA ADVANCED ENERGY CORPORATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

	Advanced Energy Delivery	Corporate Services	Total
Salaries	$ 2,431,293	$ 1,014,898	$ 3,446,191
Fringe Benefits	1,163,923	485,858	1,649,781
Rent	288,043	63,229	351,272
Depreciation and Vehicle Leases	52,363	70,929	123,292
Insurance and Property Taxes	55,469	12,176	67,645
Telephone	5,400	1,185	6,585
Internet Services	58,077	12,748	70,825
Office Supplies	33,285	7,306	40,591
Storage Fees	1,120	246	1,366
Postage	2,015	442	2,457
Parking Permits	6,729	1,477	8,206
Cell Phone Allowance	26,043	5,717	31,760
Equipment Maintenance	5,013	1,101	6,114
Bank and Payroll Fees	-	91,807	91,807
Professional Services	222,655	305,504	528,159
Travel and Meetings	192,415	165,980	358,395
Individual Development	37,096	14,580	51,676
Team Expenses	68,838	25,315	94,153
Other Expenses	-	26,090	26,090
Total Expenses	$ 4,649,777	$ 2,306,588	$ 6,956,365

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

NORTH CAROLINA ADVANCED ENERGY CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019

Cash Flows Provided by (Used in) Operating Activities	
Changes in Net Assets Without Donor Restrictions	$ 884,603
Adjustments to Reconcile Changes in Net Assets Without Donor Restrictions to Net Cash Provided by (Used in) Operating Activities	
Depreciation	115,623
Change In	
Accounts Receivable	310,546
Prepaid Expenses and Other Current Assets	(10,725)
Accounts Payable	7,710
Accrued Expenses	(180,805)
	1,126,952
Cash Flows Provided by (Used in) Investing Activities	
Purchase of Fixed Assets	(88,150)
Net Increase in Cash and Cash Equivalents	1,038,802
Cash and Cash Equivalents, Beginning	3,988,119
Cash and Cash Equivalents, Ending	$ 5,026,921

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

(1) Organization and Nature of Activities

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

Other related programs that have been undertaken by the Corporation include helping to shift demands for electricity to off-peak periods, educating consumers about energy, researching alternatives to current electric generation technologies, developing more economic sources of electric power, increasing system efficiency and load factors through conservation and load management, and demonstrating and promoting efficient use of electric power.

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

Advanced Energy Delivery

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

Corporate Services

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

(2) Summary of Significant Accounting Policies

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

(2) Summary of Significant Accounting Policies (Continued)

Use of Estimates

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

Cash and Cash Equivalents

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

Receivables

Receivables consist of amounts due from customers related to services provided. The Corporation periodically evaluates the balances in the various aging categories as well as the status of any significant past due accounts to determine the need for an allowance. Changes in the allowance are charged to the period in which management determines the change to be necessary.

When management determines that a receivable is uncollectible the balance is removed from the receivables balance through the bad debt allowance. Subsequent recoveries of amounts previously written off are credited directly to earnings. No bad debt allowance was considered necessary at December 31, 2019.

Property and Equipment

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

Basis of Presentation

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

- Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor restrictions.

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

(2) Summary of Significant Accounting Policies (Continued)

Revenues

Member utility funding is from investor-owned utilities regulated by the Commission and other in-state member organizations. Funding from investor-owned utilities is derived from a special charge authorized by the Commission that may be assessed to retail customers in North Carolina on the basis of kilowatt per hour usage. Other in-state member organizations are charged for services rendered based on a charge to their customers of no less than 60 percent of the amount authorized by the Commission for regulated utilities. Revenue from member utility funding is recognized as billed.

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

Other revenue, consisting primarily of fees for consulting services, training and seminars, is recognized and billed when earned.

Advertising Costs

The Corporation expenses advertising costs as incurred. Advertising expense for the year ended December 31, 2019 totaled $1,151.

Income Taxes

The Corporation is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code and is therefore exempt from federal and state income taxes. Income generated by activities that would be considered unrelated to the Corporation's mission would be subject to tax which, if incurred, would be recognized as a current expense. No such tax has been recognized for the year ended December 31, 2019.

The Corporation accounts for income taxes in accordance with U.S. GAAP. These standards include provisions for accounting for uncertainty in income taxes. The Company is not aware of any tax position that would require disclosure. The Company's federal income tax returns are subject to examination by the Internal Revenue Service for three years after they are filed. Currently, income tax returns for years ended on or after December 31, 2016 are subject to examination by federal and state taxing authorities.

Functional Allocation of Expenses

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

(2) Summary of Significant Accounting Policies (Continued)

Recently Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (ASC Topic 606).* ASU 2014-09 is designed to create greater comparability for financial statement users across industries and jurisdictions through a more principles-based approach than companies in the United States are used to following. The standard would require companies to recognize revenue through a five-step process: (1) identify the contract with the customer, (2) identify the separate performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the separate performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2015-14 deferred the effective dates for nonpublic companies to annual reporting periods beginning after December 15, 2018, and for interim reporting periods within annual reporting periods beginning after December 15, 2019. The Corporation adopted the standard on January 1, 2019. There was no material impact to the financial statements from the adoption of this standard.

New Accounting Pronouncement

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)* for lease accounting under U.S. GAAP. The new standard is intended to eliminate off-balance-sheet recording of lease obligations in an effort to create financial statements that more accurately reflect leasing activities. In general, an entity will record on the balance sheet the right-of-use assets and the corresponding lease obligations. The new standard will become effective for private companies for fiscal years beginning after December 15, 2020. Comparative periods presented in financial statements must use the same standards, as if ASU 2016-02 was in effect for the prior year presented. The adoption of ASU 2016-02 is not expected to have a material impact on the financial statements of the Corporation.

(3) Liquidity and Availability:

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

Cash and Cash Equivalents	$ 5,026,921
Accounts Receivable	1,366,691
	$ 6,393,612

Additionally, the Corporation has an unused line-of-credit in the amount of $2,580,156.

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

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

(4) Lease Commitments

The Corporation is obligated under an operating lease for the rental of office space through November 2021. Rent expense totaled $351,272 for the year ended December 31, 2019.

The Corporation is obligated under an operating lease for the rental of a vehicle through July 2022. This expense totaled $6,307 for the year ended December 31, 2019.

Future minimum lease payments under these operating leases as of December 31, 2019 are as follows:

Year	Amount
2020	$ 327,186
2021	305,916
2022	3,807
	$ 636,909

(5) Retirement Plan

The Corporation has established a defined contribution retirement plan under Section 403(b) of the Internal Revenue Code. The plan benefits all employees meeting certain eligibility requirements. Employees are allowed to make contributions to the plan in addition to the Corporation's contribution which is based on an employee's level of base wages. Employees become 100 percent vested in the Corporation's contribution concurrent with meeting the eligibility requirements. Retirement plan expense for the year ended December 31, 2019 was $200,836.

(6) Related Parties

In February 2003, NC GreenPower Corporation (NCGP) was incorporated as a nonprofit entity. The mission of NCGP is to provide financial incentives to encourage the development of renewable energy resources. It is funded primarily by voluntary contributions from electric utility ratepayers in North Carolina. The Corporation's board of directors constitute the members of NCGP. Certain resolutions of the board of directors of NCGP require two-thirds of the votes of the members to adopt. The Corporation historically provides contributions for marketing and administration operations to NCGP each year based on NCGP's need and at the determination of the board of directors.

During 2019, the Corporation charged NCGP for services provided by its staff and use of facilities in the amount of $442,592. As of December 31, 2019, the Corporation was due $30,167 from NCGP.

During 2019, some accounting services were provided by an outside vendor, who provides similar services to electric cooperatives in North Carolina. The president of the Corporation has a seat on the board of directors of this vendor, as do leaders from the other cooperatives. If the vendor recognizes a profit at year end, the profits are distributed back to the organizations that utilize the vendor. The Corporation paid $35,133 to the vendor during the year ended December 31, 2019. At December 31, 2019, the Corporation owed the vendor $5,130.

(7) Concentrations of Credit Risk

The Corporation maintains bank accounts at local banks. Accounts at the institutions are insured by the FDIC up to $250,000. Cash at these institutions exceeded federally insured limits. The amount in excess of the FDIC limit totaled $863,248 at December 31, 2019.

North Carolina investor-owned utilities and electric cooperatives comprise 50 percent of the Corporation's 2019 revenue and 79 percent of receivables as of December 31, 2019.

(8) Commitments

The Corporation has a $2,580,156 line-of-credit with Edward Jones with no outstanding balance as of December 31, 2019. The rate of interest as of December 31, 2019 was 4 percent and the line-of-credit is collateralized by certificate of deposits the Corporation held by Edward Jones. This line-of-credit was terminated as of May 28, 2020.

(9) Subsequent Events

As of the issuance date of these financial statements, the Coronavirus pandemic was having an adverse effect on financial markets. The effects of the Coronavirus are widespread and unprecedented. The pandemic is causing a severe slowdown in economic activity. The effects of the pandemic upon the Corporation are unknown at this time.

On April 30, 2020, the Corporation obtained a loan in the amount of $783,825 through the Paycheck Protection Program (PPP) administered by the Small Business Administration. The loan has a 1 percent interest rate and will mature in two years. The principal amount of the loan may qualify for loan forgiveness if the Corporation meets the PPP loan guidelines. On May 14, 2020, the Corporation paid $533,825 on the principal balance of the PPP loan.

In preparing these financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through May 29, 2020, the date the financial statements were available to be issued.

NORTH CAROLINA ADVANCED ENERGY CORPORATION MATTERS TO BE COMMUNICATED WITH THE BOARD OF DIRECTORS DECEMBER 31, 2019

Auditor's Responsibility Under Generally Accepted Auditing Standards

As stated in our engagement letter, the auditor is responsible for forming and expressing an opinion about whether the financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Planned Scope and Timing of the Audit

The audit was performed according to the planned scope and timing previously communicated to you in our engagement letter.

Significant Accounting Policies

Management is responsible for the selection of appropriate accounting policies. The significant accounting policies used by North Carolina Advanced Energy Corporation (the Corporation) are outlined in Note 2 to the financial statements.

The Corporation adopted Accounting Standards Update 2014-09, *Revenue from Contracts with Customers*, as described in Note 2 to the financial statements. The application of existing policies was not changed during 2019.

We noted no transaction entered into by the Corporation during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a period other than when the transaction occurred.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the financial statements and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting the estimates may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Useful lives of property, plant and equipment
- Expense accruals

We evaluated the key factors and assumptions used to develop management's estimates in determining that they are reasonable in relation to the financial statements as a whole. The financial statement disclosures are neutral, consistent and clear.

Significant Audit Adjustments and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no audit adjustments for the year ended December 31, 2019. There were no significant uncorrected misstatements, material or immaterial.

Disagreements with Management

Professional standards define a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 29, 2020.

Consultation with Other Accountants

To our knowledge, management did not consult with other accountants relating to auditing or accounting matters.

Major Issues Discussed with Management Prior to Retention

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Corporation's auditor. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

There were no difficulties encountered in dealing with management related to the performance of the audit.

Restriction of Use

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