

advanced  
energy

**North Carolina Advanced Energy Corporation**

**FINANCIAL STATEMENTS**

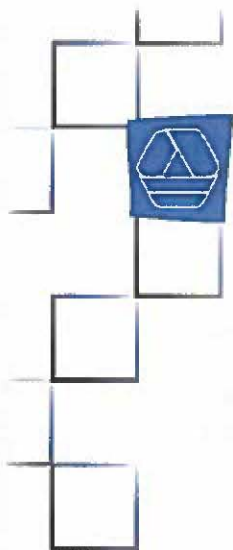
**Years Ended December 31, 2017 and 2016**

NORTH CAROLINA ADVANCED ENERGY CORPORATION

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December 31, 2017 and 2016

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**Williams Overman Pierce, LLP**  
Certified Public Accountants and Consultants

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
North Carolina Advanced Energy Corporation

We have audited the accompanying financial statements of North Carolina Advanced Energy Corporation (a nonprofit organization), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to 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.

### ***Auditors' Responsibility***

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 audits 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 auditors' 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 entity'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 entity'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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Williams Dyerman Pierce, LLP*

Raleigh, North Carolina  
June 6, 2018

NORTH CAROLINA ADVANCED ENERGY CORPORATION  
STATEMENTS OF FINANCIAL POSITION  
December 31, 2017 and 2016

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ASSETS

	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and cash equivalents	\$ 3,064,454	\$ 3,294,799
Accounts receivable, net	1,166,799	725,746
Grants receivable		28,516
Related parties receivable, net	16,892	28,276
Prepaid expenses	<u>62,437</u>	<u>73,415</u>
Total current assets	<u>4,310,582</u>	<u>4,150,752</u>
Property and equipment:		
Furniture and fixtures	309,860	284,823
Vehicles	52,963	52,963
Leasehold improvements	734,132	702,231
Equipment	<u>1,835,254</u>	<u>1,634,010</u>
	2,932,209	2,674,027
Less: accumulated depreciation	<u>(2,626,431)</u>	<u>(2,460,199)</u>
	<u>305,778</u>	<u>213,828</u>
	<u><u>\$ 4,616,360</u></u>	<u><u>\$ 4,364,580</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable	\$ 205,697	\$ 278,866
Accrued expenses	273,805	269,714
Deferred revenue	<u>10,288</u>	<u>7,788</u>
Total current liabilities	<u>489,790</u>	<u>556,368</u>
Net assets - unrestricted	<u>4,126,570</u>	<u>3,808,212</u>
	<u><u>\$ 4,616,360</u></u>	<u><u>\$ 4,364,580</u></u>

See accompanying notes to financial statements.

NORTH CAROLINA ADVANCED ENERGY CORPORATION  
 STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
 Years Ended December 31, 2017 and 2016

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	<u>2017</u>	<u>2016</u>
Revenues:		
Member utility funding	\$ 3,781,435	\$ 3,832,902
Government grants	305,407	367,779
Interest	23,728	7,824
Other revenue	<u>2,558,703</u>	<u>2,679,493</u>
Total revenues	<u>6,669,273</u>	<u>6,887,998</u>
Expenses:		
Products and services	4,315,938	4,539,914
Corporate support services	<u>2,034,977</u>	<u>2,177,386</u>
Total expenses	<u>6,350,915</u>	<u>6,717,300</u>
Change in net assets	318,358	170,698
Net assets, beginning of year	<u>3,808,212</u>	<u>3,637,514</u>
Net assets, end of year	<u><u>\$ 4,126,570</u></u>	<u><u>\$ 3,808,212</u></u>

See accompanying notes to financial statements.

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NORTH CAROLINA ADVANCED ENERGY CORPORATION  
STATEMENTS OF CASH FLOWS  
Years Ended December 31, 2017 and 2016

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	2017	2016
Cash flows from operating activities:		
Cash received from grants and donors	\$ 6,246,892	\$ 7,093,800
Cash paid to suppliers and employees	(6,242,783)	(6,310,689)
Interest received	23,728	7,824
Net cash provided by operating activities	<u>27,837</u>	<u>790,935</u>
Cash flows from investing activities:		
Purchase of fixed assets	<u>(258,182)</u>	<u>(136,318)</u>
Net (decrease) increase in cash	(230,345)	654,617
Cash, beginning of year	<u>3,294,799</u>	<u>2,640,182</u>
Cash, end of year	<u><u>\$ 3,064,454</u></u>	<u><u>\$ 3,294,799</u></u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 318,358	\$ 170,698
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	166,232	249,558
Changes in operating assets and liabilities:		
Receivables	(401,153)	214,576
Prepaid expenses	10,978	32,408
Accounts payable and accrued expenses	(69,078)	124,645
Deferred revenue	2,500	(950)
Net cash provided by operating activities	<u><u>\$ 27,837</u></u>	<u><u>\$ 790,935</u></u>

See accompanying notes to financial statements.

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NORTH CAROLINA ADVANCED ENERGY CORPORATION  
NOTES TO FINANCIAL STATEMENTS

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1. Summary of Significant Accounting Policies:

Organization and Nature of Activities:

North Carolina Advanced Energy Corporation (the "Corporation") was formed on April 18, 1980, as a nonprofit entity. Corporate goals are directed towards helping residential, commercial, and industrial customers improve the "return" on their energy investment. The Corporation pursues various broad-based programs to achieve these goals. With expertise in applied building science, industrial process technologies, and electric motors and drives, the Corporation provides extensive testing, training, and consulting to utilities and energy consumers.

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 56% of the Corporation's funding is derived from the ratepayers of three North Carolina investor-owned utilities and the state's twenty-eight 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 their consumers, then this action could have a material adverse effect on the Corporation's operating results.

Advanced Energy Delivery Team:

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 Support Services:

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

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NORTH CAROLINA ADVANCED ENERGY CORPORATION  
NOTES TO FINANCIAL STATEMENTS

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**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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Cash and Cash Equivalents:**

Cash and cash equivalents include all monies in banks and highly liquid investments with maturity dates of three months or less. The carrying value of cash is at cost which approximates fair value because of the short maturity of those financial instruments.

**Basis of Accounting:**

The Corporation prepares its financial statements on the accrual basis of accounting and accordingly reflects all significant receivables, payables, and other liabilities.

**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 bad debt expense. Subsequent recoveries of amounts previously written off are credited directly to earnings. For the year ended December 31, 2017 the Corporation's bad debt expense totaled \$350. There was no bad debt expense for the year ended December 31, 2016.

**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.

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NOTES TO FINANCIAL STATEMENTS

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**Basis of Presentation:**

In accordance with Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") 958-205, Presentation of Not-for-Profit Organizations, the Corporation reports information regarding its financial position and activities as follows:

**Unrestricted Net Assets**

Net assets that are not subject to donor-imposed stipulations are considered unrestricted.

**Temporarily Restricted Net Assets**

Net assets that are subject to donor-imposed stipulations that may or will be met either by action of the Corporation and/or the passage of time are considered temporarily restricted.

**Permanently Restricted Net Assets**

Net assets that are required by the donor to be maintained in perpetuity are considered permanently restricted.

**Revenue Sources and Recognition:**

The funding from investor-owned utilities regulated by the Commission 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% of the amount authorized by the Commission for regulated utilities.

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 training and seminar fees and consulting services, is recognized when earned.

**Deferred Revenues:**

The Corporation records deferred revenues for payments received from customers for services that have not been requested by those customers at year end.

NORTH CAROLINA ADVANCED ENERGY CORPORATION  
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**Advertising Costs:**

The Corporation expenses advertising costs as incurred. Advertising expense for the years ended December 31, 2017 and 2016 was \$2,456 and \$5,666, respectively.

**Income Taxes:**

The Corporation is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code and is therefore exempt from federal and state income taxes. Income generated by activities that would be considered unrelated to the Corporation's mission would be subject to tax which, if incurred, would be recognized as a current expense. No such tax has been recognized for the years ended December 31, 2017 and 2016.

The Corporation evaluates all significant tax positions as required by accounting principles generally accepted in the United States of America. As of December 31, 2017, the Corporation does not believe that it has taken any positions that would require the recording of any additional tax liability, nor does it believe that there are any unrealized tax benefits that would either increase or decrease within the next year.

The Corporation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2014.

**Reclassifications:**

Certain amounts in the 2016 financial statements have been reclassified to conform with the 2017 presentation with no effect on previously reported change in net assets.

**2. Concentrations of Credit Risk:**

The Corporation maintains bank accounts at local banks. Accounts at the institutions are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. Cash at these institutions exceeded federally insured limits. The amount in excess of the FDIC limit totaled \$2,152,601 and \$2,604,318 at December 31, 2017 and 2016, respectively.

North Carolina investor-owned utilities and electric cooperatives comprise 57% of the Corporation's 2017 revenue and 56% of receivables as of December 31, 2017. The utilities comprised 56% of the Corporation's 2016 revenue and 43% of receivables as of December 31, 2016.



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3. Lease Commitments:

The Corporation is obligated under an operating lease for the rental of office space. Rent expense totaled \$297,958 and \$443,169 for 2017 and 2016, respectively.

Future minimum lease payments under this operating lease are as follows:

<u>Year ending December 31,</u>	<u>Amount</u>
2018	\$ 318,683
2019	326,601
2020	334,716
2021	314,617
	<u>\$ 1,294,617</u>

4. 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% vested in the Corporation's contribution concurrent with meeting the eligibility requirements. Retirement expense for 2017 and 2016 was \$200,310 and \$235,009, respectively.

5. 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 constitutes 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 2017 and 2016, the Corporation charged NCGP for services provided by its staff and use of facilities in the amount of \$475,047 and \$543,090, respectively. As of December 31, 2017 and 2016, the Corporation was due \$27,747 and \$34,376, respectively, from NCGP.

During 2017 and 2016, 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

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NOTES TO FINANCIAL STATEMENTS

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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 \$69,010 and \$84,403 to the vendor during the years ended December 31, 2017 and 2016, respectively. At December 31, 2017 and 2016 the Corporation owed the vendor \$10,855 and \$6,100, respectively.

6. Functional Expenses:

Functional expenses consisted of the following:

	2017		
	Products/ Services	Corporate Support	Total
Salaries	\$ 2,879,786	\$ 717,310	\$ 3,597,096
Professional services	361,702	322,068	683,770
Fringe benefits	582,947	200,582	783,529
Facilities		572,185	572,185
Travel and meetings	321,093	92,344	413,437
Other costs	888	1,173	2,061
Team expenses	169,522	129,315	298,837
	<u>\$ 4,315,938</u>	<u>\$ 2,034,977</u>	<u>\$ 6,350,915</u>

	2016		
	Products/ Services	Corporate Support	Total
Salaries	\$ 2,817,180	\$ 732,207	\$ 3,549,387
Professional services	459,891	294,566	754,457
Fringe benefits	688,270	174,762	863,032
Facilities		751,304	751,304
Travel and meetings	341,348	103,429	444,777
Other costs	42,473	608	43,081
Team expenses	190,752	120,510	311,262
	<u>\$ 4,539,914</u>	<u>\$ 2,177,386</u>	<u>\$ 6,717,300</u>

7. Subsequent Events:

Management has evaluated subsequent events through June 6, 2018, the date which the financial statements were available to be issued. No significant subsequent events have been identified by management.

