Docket #
E-100 SUB 37A

North Carolina Advanced Energy Corporation

FINANCIAL STATEMENTS

Year Ended December 31, 2018

NORTH CAROLINA ADVANCED ENERGY CORPORATION

CONTENTS

December 31, 2018

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 statement of financial position as of December 31, 2018, and the related statement of activities and changes in net assets, functional expenses, and cash flows for the year 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 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 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, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Williams Overman Pierce, LLP

Raleigh, North Carolina
June 7, 2019

NORTH CAROLINA ADVANCED ENERGY CORPORATION
STATEMENT OF FINANCIAL POSITION
December 31, 2018

ASSETS

	2018
Current assets:	
Cash and cash equivalents	$ 3,988,119
Accounts receivable, net	1,677,237
Prepaid expenses	88,450
Total current assets	5,753,806
Property and equipment:	
Furniture and fixtures	278,128
Vehicles	102,238
Leasehold improvements	734,132
Equipment	1,611,299
	2,725,797
Less: accumulated depreciation	(2,493,405)
	232,392
	$ 5,986,198

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable	$ 81,184
Accrued expenses	580,009
Total current liabilities	661,193
Net assets:	
Without donor restrictions:	
Unrestricted	5,325,005
	$ 5,986,198

See accompanying notes to financial statements.

NORTH CAROLINA ADVANCED ENERGY CORPORATION
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended December 31, 2018

	Without Donor Restrictions	Total
Revenues:		
Member utility funding	$ 3,821,017	$ 3,821,017
Government grants	104,874	104,874
Interest	47,103	47,103
Other revenue	3,712,445	3,712,445
Total revenues	7,685,439	7,685,439
Expenses:		
Products and services	4,406,467	4,406,467
Business and employee services	2,080,537	2,080,537
Total expenses	6,487,004	6,487,004
Change in net assets	1,198,435	1,198,435
Net assets, beginning of year	4,126,570	4,126,570
Net assets, end of year	$ 5,325,005	$ 5,325,005

See accompanying notes to financial statements.

NORTH CAROLINA ADVANCED ENERGY CORPORATION
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2018

	Products/ Services	Business and Employee Services	Total
Salaries	$ 2,202,935	$ 855,855	$ 3,058,790
Fringe benefits	1,123,749	436,584	1,560,333
Rent	259,665	57,000	316,665
Depreciation	67,869	77,546	145,415
Insurance and property taxes	24,461	5,369	29,830
Telephone	10,613	2,330	12,943
Internet services	42,925	9,423	52,348
Office supplies	41,390	9,086	50,476
Storage fees	1,504	330	1,834
Postage	1,188	261	1,449
Parking permits	6,540	1,436	7,975
Cell phone allowance	22,524	4,944	27,468
Equipment maintenance	10,698	2,348	13,046
Bank and payroll fees		84,586	84,586
Professional services	344,176	317,282	661,458
Travel and meetings	164,908	180,910	345,818
Individual development	23,048	9,031	32,079
Team expenses	44,183	26,217	70,400
Other expenses	14,091		14,091
Total expenses	$ 4,406,467	$ 2,080,537	$ 6,487,004

See accompanying notes to financial statements.

NORTH CAROLINA ADVANCED ENERGY CORPORATION
STATEMENTS OF CASH FLOWS
Year Ended December 31, 2018

Cash flows from operating activities:	
Cash received from customers, donors, and grants	$ 7,134,502
Cash paid to suppliers and employees	(6,185,911)
Interest received	47,103
Net cash provided by operating activities	995,694
Cash flows from investing activities:	
Purchase of fixed assets	(72,029)
Net increase in cash	923,665
Cash, beginning of year	3,064,454
Cash, end of year	$ 3,988,119

Reconciliation of change in net assets to net cash provided by operating activities:	
Change in net assets	$ 1,198,435
Adjustments to reconcile change in net assets to cash provided by operating activities:	
Depreciation	145,415
Changes in operating assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	(493,546)
Prepaid expenses	(26,013)
Increase (decrease) in:	
Accounts payable and accrued expenses	181,691
Deferred revenue	(10,288)
Net cash provided by operating activities	$ 995,694

See accompanying notes to financial statements.

1. Summary of Significant Accounting Policies:

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. Our 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% of the Corporation's funding is derived from three North Carolina electric utilities and twenty six 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 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.

Business and Employee Service:

Business and employee services 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.

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 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, 2018.

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:

The financial statements of the Corporation have been prepared on the accrual basis of accounting.

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Corporation and changes therein are classified and reported as follows:

<u>Net Assets Without Donor Restrictions</u> – Net assets that are not subject to donor-imposed stipulations.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed stipulations that will be met either by actions of the Corporation and/or the passage of time. Other donor-imposed restrictions are perpetual in nature, where the donor stipulations state that the assets be maintained permanently by the Corporation. 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 is met, or both.

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.

Advertising Costs:

The Corporation expenses advertising costs as incurred. Advertising expense for the year ended December 31, 2018 was $4,628.

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, 2018.

The Corporation evaluates all significant tax positions as required by accounting principles generally accepted in the United States of America. As of December 31, 2018, 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 2015.

Functional Allocation of Expenses:

The financial statements report certain categories of expenses that are attributable to one or more program 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 fringe costs in relation to total salaries.

Change in Accounting Principle:

On August 18, 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Corporation has implemented ASU 2016-14 and has adjusted the presentation in the financial statements accordingly. The application of this ASU resulted in no change in previously reported net assets.

Recent Accounting Pronouncements:

In May 2014, the FASB issued ASU No 2014-09, *Revenue from Contracts with Customers* ("Topic 606"), which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. This ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The effective date of ASU No. 2014-09 was amended by ASU No. 2015-14. Therefore, the ASU will be effective for the Corporation for the year ended December 31, 2019 with earlier adoption permitted for annual periods beginning after December 15, 2016. Further ASUs (ASU 2016-08, 2016-10) have been issued to clarify ASC Topic 606 for principal and agent considerations and performance obligations and licensing implementation guidance. The Corporation is assessing the potential effects on future financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use asset for all leases (with the exception of short-term leases) at the commencement date. The ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2019. The Corporation is assessing the potential effects on future financial statements.

In August 2016, the FASB amended the Statement of Cash Flows topic of the Accounting Standards Codification to clarify how certain cash receipts and cash payments are presented and classified in the statements of cash flows. The amendments will be effective for the Corporation for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The Corporation does not expect these amendments to have a material effect on its financial statements.

In June 2018, the FASB issued ASU No. 2018-08 to clarify and improve the scope and accounting guidance for contributions received and contributions made. The amendments are intended to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The amendments for contributions received and made will be effective for the Corporation for the fiscal year ending December 31, 2019. The Corporation is assessing the potential effects on future financial statements.

2. Liquidity and Availability:

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

Cash and cash equivalents	$ 3,988,119
Accounts receivable due in less than one year	1,677,237
	$ 5,665,356

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 FDIC-insured certificates of deposit. $1,000,000 is considered by the Corporation to be sufficient cash flow to meet the Corporation's obligations should there be delays in payment from significant customers, including North Carolina investor-owned utilities and electric cooperatives.

3. 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 $1,475,300 at December 31, 2018.

North Carolina investor-owned utilities and electric cooperatives comprise 50% of the Corporation's 2018 revenue and 75% of receivables as of December 31, 2018.

4. Lease Commitments:

The Corporation is obligated under an operating lease for the rental of office space through November 2021. Rent expense totaled $316,665 for the year ended December 31, 2018.

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

Year ending December 31,	Amount
2019	$ 326,601
2020	334,716
2021	314,617
	$ 975,934

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% vested in the Corporation's contribution concurrent with meeting the eligibility requirements. Retirement plan expense for the year ended December 31, 2018 was $165,078.

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 2018, the Corporation charged NCGP for services provided by its staff and use of facilities in the amount of $572,279. As of December 31, 2018, the Corporation was due $32,234 from NCGP.

During 2018, 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 $56,281 to the vendor during the year ended December 31, 2018. At December 31, 2018, the Corporation owed the vendor $1,250.

7. Subsequent Events:

Management has evaluated subsequent events through June 7, 2019, the date which the financial statements were available to be issued. No significant subsequent events have been identified by management.