



advanced
energy

North Carolina Advanced Energy Corporation

FINANCIAL STATEMENTS

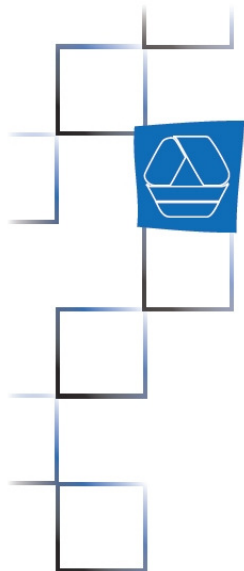
Years Ended December 31, 2015 and 2014

NORTH CAROLINA ADVANCED ENERGY CORPORATION

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December 31, 2015 and 2014

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Williams Overman Pierce, LLP
Certified Public Accountants and Consultants

INDEPENDENT AUDITORS' REPORT

Board of Directors
North Carolina Advanced Energy Corporation
Raleigh, North Carolina

We have audited the accompanying financial statements of North Carolina Advanced Energy Corporation, which comprise the statements of financial position as of December 31, 2015 and 2014, 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 opinions 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 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 auditors consider 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 opinions.

***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, 2015 and 2014, 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 1, 2016

NORTH CAROLINA ADVANCED ENERGY CORPORATION
STATEMENTS OF FINANCIAL POSITION
December 31, 2015 and 2014

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ASSETS

	<u>2015</u>	<u>2014</u>
Current assets:		
Cash	\$ 2,640,182	\$ 2,603,250
Accounts receivable, net	852,901	861,900
Grants receivable	116,575	90,166
Related party receivable	33,738	82,632
Prepaid expenses	<u>105,823</u>	<u>137,937</u>
Total current assets	<u>3,749,219</u>	<u>3,775,885</u>
Property and equipment:		
Furniture and fixtures	284,823	286,368
Vehicles	52,963	52,963
Leasehold improvements	702,231	702,231
Equipment	<u>1,497,692</u>	<u>1,577,593</u>
	2,537,709	2,619,155
Less: accumulated depreciation	<u>(2,210,641)</u>	<u>(2,059,104)</u>
Total property and equipment	<u>327,068</u>	<u>560,051</u>
Total assets	<u><u>\$ 4,076,287</u></u>	<u><u>\$ 4,335,936</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable	\$ 167,499	\$ 330,175
Accrued expenses	262,536	223,062
Deferred revenue	<u>8,738</u>	<u>18,938</u>
Total current liabilities	438,773	572,175
Net assets - unrestricted	<u>3,637,514</u>	<u>3,763,761</u>
Total liabilities and net assets	<u><u>\$ 4,076,287</u></u>	<u><u>\$ 4,335,936</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, 2015 and 2014

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	<u>2015</u>	<u>2014</u>
Revenues:		
Member utility funding	\$ 3,803,788	\$ 4,046,975
Government grants	398,620	249,589
Interest	8,321	7,468
Other revenue	<u>2,876,614</u>	<u>3,359,444</u>
Total revenues	<u>7,087,343</u>	<u>7,663,476</u>
Expenses:		
Products and services	5,415,664	6,225,851
Corporate support services	<u>1,797,926</u>	<u>1,566,874</u>
Total expenses	<u>7,213,590</u>	<u>7,792,725</u>
Change in net assets	(126,247)	(129,249)
Net assets, beginning of year	<u>3,763,761</u>	<u>3,893,010</u>
Net assets, end of year	<u><u>\$ 3,637,514</u></u>	<u><u>\$ 3,763,761</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, 2015 and 2014

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	2015	2014
Cash flows from operating activities		
Cash received from grants and donors	\$ 7,100,306	\$ 7,382,579
Cash paid to suppliers and employees	(7,008,216)	(7,236,056)
Interest received	8,321	7,468
Net cash provided by operating activities	<u>100,411</u>	<u>153,991</u>
Cash flows from investing activities		
Purchase of fixed assets	<u>(63,479)</u>	<u>(59,094)</u>
Net increase in cash	36,932	94,897
Cash, beginning of year	<u>2,603,250</u>	<u>2,508,353</u>
Cash, end of year	<u><u>\$ 2,640,182</u></u>	<u><u>\$ 2,603,250</u></u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ (126,247)	\$ (129,249)
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	271,397	324,616
Loss on disposal of assets	25,065	
Changes in operating assets and liabilities:		
Receivables	31,484	(140,589)
Prepaid expenses	32,114	19,812
Accounts payable and accrued expenses	(123,202)	212,241
Deferred revenue	<u>(10,200)</u>	<u>(132,840)</u>
Net cash provided by operating activities	<u><u>\$ 100,411</u></u>	<u><u>\$ 153,991</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 54% 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.

Product/Service Teams:

Product/Service Teams develop products and services and deliver them to customers. These teams work in the following areas: motors, industrial process technologies, HVAC, residential new construction (site-built), and building diagnostics (residential and commercial). The Board of Directors approves the Corporation's annual Business Plan, which includes the plans of each of the Product/Service Teams.

Corporate Support Services:

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

NORTH CAROLINA ADVANCED ENERGY CORPORATION
NOTES TO FINANCIAL STATEMENTS

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Use of Estimates:

The preparation of the 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.

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:

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 and is charged against the expense. Subsequent recoveries of amounts previously written off are credited directly to earnings.

Receivables consist of amounts due from state and federal grants receivable related to services provided to customers. At December 31, 2015 and 2014, the Company's allowance for doubtful accounts was \$1,000 and \$5,000, respectively.

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.

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:

NORTH CAROLINA ADVANCED ENERGY CORPORATION
NOTES TO FINANCIAL STATEMENTS

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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 North Carolina Utilities 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 years ended December 31, 2015 and 2014 was \$9,279 and \$6,616 respectively.

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NOTES TO FINANCIAL STATEMENTS

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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 as of December 31, 2015 and 2014.

The Corporation evaluates all significant tax positions as required by accounting principles generally accepted in the United States of America. As of December 31, 2015, 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 2012.

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 \$1,955,987 and \$1,947,578 at December 31, 2015 and 2014, respectively.

North Carolina investor-owned utilities and electric cooperatives comprise 54% of the Corporation's 2015 revenue and 37% of receivables as of December 31, 2015. The utilities comprised 53% of the Corporation's 2014 revenue and 42% of receivables as of December 31, 2014.

3. Lease Commitments:

The Corporation is obligated under an operating lease for the rental of office space. Rent expense totaled \$503,588 and \$495,716 for 2015 and 2014, respectively.

Future minimum lease payments under this operating lease total \$439,710 for the year ending December 31, 2016.

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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 2015 and 2014 was \$212,986 and \$308,096, respectively.

5. Related Party:

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 2015 and 2014, the Corporation charged NCGP for services provided by its staff and use of facilities in the amount of \$523,259 and \$465,528 respectively. As of December 31, 2015 and 2014, the Corporation was due \$33,738 and \$82,632, respectively from NCGP.

6. Functional Expenses:

Functional expenses consist of the following:

	2015		
	Products/ Services	Corporate Support	Total
Salaries	\$ 2,864,495	\$ 817,067	\$ 3,681,562
Professional services	672,212	288,547	960,759
Fringe benefits	671,409	174,888	846,297
Facilities	645,569	241,321	886,890
Travel and meetings	380,537	133,479	514,016
Other costs	6,821	6,553	13,374
Team expenses	174,621	136,071	310,692
	<u>\$ 5,415,664</u>	<u>\$ 1,797,926</u>	<u>\$ 7,213,590</u>

NORTH CAROLINA ADVANCED ENERGY CORPORATION
NOTES TO FINANCIAL STATEMENTS

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	2014		
	Products/ Services	Corporate Support	Total
Salaries	\$ 3,123,244	\$ 739,828	\$ 3,863,072
Professional services	719,738	187,246	906,984
Fringe benefits	784,041	171,524	955,565
Facilities	679,336	205,090	884,426
Travel and meetings	371,686	120,918	492,604
Other costs	260,501	2,100	262,601
Team expenses	190,224	45,512	235,736
Equipment	97,081	94,656	191,737
	<u>\$ 6,225,851</u>	<u>\$ 1,566,874</u>	<u>\$ 7,792,725</u>

7. Subsequent Events:

Management has evaluated subsequent events through June 1, 2016, the date which the financial statements were available to be issued. No significant subsequent events have been identified by management.

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