



advanced  
energy

**North Carolina Advanced Energy Corporation**

FINANCIAL STATEMENTS

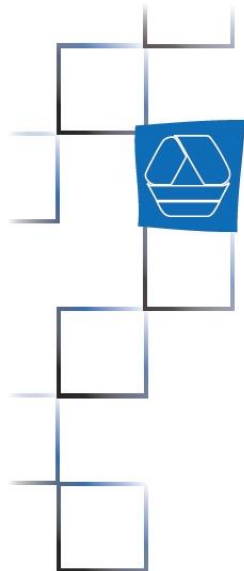
Years Ended December 31, 2014 and 2013

## NORTH CAROLINA ADVANCED ENERGY CORPORATION

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December 31, 2014 and 2013

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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 (a nonprofit organization) which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities and changes in net assets, and cash flows for the years 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.

### ***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 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 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, based on our audits, 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, 2014 and 2013, 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.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2015 on our consideration of North Carolina Advanced Energy Corporation'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* in considering North Carolina Advanced Energy Corporation's internal control over financial reporting and compliance.

*William Dorman Pierce, LLP*

Raleigh, North Carolina  
June 5, 2015

NORTH CAROLINA ADVANCED ENERGY CORPORATION  
STATEMENTS OF FINANCIAL POSITION  
December 31, 2014 and 2013

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ASSETS

	<u>2014</u>	<u>2013</u>
Current Assets:		
Cash	\$ 2,603,250	\$ 2,508,353
Accounts Receivable, net	861,900	788,550
Grants Receivable	90,166	71,337
Related Party Receivable	82,632	34,222
Prepaid Expenses	<u>137,937</u>	<u>157,749</u>
Total Current Assets	<u>3,775,885</u>	<u>3,560,211</u>
Property and Equipment:		
Furniture and Fixtures	286,368	286,368
Vehicles	52,963	35,883
Leasehold Improvements	702,231	702,231
Equipment	<u>1,577,593</u>	<u>1,535,579</u>
	2,619,155	2,560,061
Less: Accumulated Depreciation	<u>(2,059,104)</u>	<u>(1,734,488)</u>
Total Property and Equipment	<u>560,051</u>	<u>825,573</u>
Total Assets	<u><u>\$ 4,335,936</u></u>	<u><u>\$ 4,385,784</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts Payable	\$ 330,175	\$ 131,737
Accrued Expenses	223,062	209,259
Deferred Revenue	<u>18,938</u>	<u>151,778</u>
Total Current Liabilities	572,175	492,774
Contingencies		
Net Assets - Unrestricted	<u>3,763,761</u>	<u>3,893,010</u>
Total Liabilities and Net Assets	<u><u>\$ 4,335,936</u></u>	<u><u>\$ 4,385,784</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, 2014 and 2013

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	<u>2014</u>	<u>2013</u>
Revenues:		
Member Utility Funding	\$ 4,046,975	\$ 3,837,416
Government Grants	249,589	708,395
Interest	7,468	7,233
Other Revenue	<u>3,359,444</u>	<u>2,565,529</u>
Total Revenues	<u>7,663,476</u>	<u>7,118,573</u>
Expenses:		
Products and Services	6,225,851	6,090,883
Corporate Support Services	<u>1,566,874</u>	<u>2,138,167</u>
Total Expenses	<u>7,792,725</u>	<u>8,229,050</u>
Change in Net Assets	( 129,249 )	( 1,110,477 )
Net Assets, Beginning of Year	<u>3,893,010</u>	<u>5,003,487</u>
Net Assets, End of Year	<u><u>\$ 3,763,761</u></u>	<u><u>\$ 3,893,010</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, 2014 and 2013

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	2014	2013
Cash flows from operating activities		
Cash received from grants and donors	\$ 7,382,579	\$ 8,438,979
Cash paid to suppliers and employees	( 7,236,056 )	( 8,043,199 )
Interest received	7,468	7,233
Net cash provided by operating activities	<u>153,991</u>	<u>403,013</u>
Cash flows from investing activities		
Purchase of fixed assets	<u>( 59,094 )</u>	<u>( 634,135 )</u>
Net increase (decrease) in cash	94,897	( 231,122 )
Cash, beginning of year	<u>2,508,353</u>	<u>2,739,475</u>
Cash, end of year	<u><u>\$ 2,603,250</u></u>	<u><u>\$ 2,508,353</u></u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ ( 129,249 )	\$ ( 1,110,477 )
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	324,616	328,789
Loss on sale of assets		13,989
Changes in operating assets and liabilities:		
Receivables	( 140,589 )	1,239,223
Prepaid expenses	19,812	( 19,676 )
Accounts payable and accrued expenses	212,241	( 137,253 )
Deferred revenue	<u>( 132,840 )</u>	<u>88,418</u>
Net cash provided by operating activities	<u><u>\$ 153,991</u></u>	<u><u>\$ 403,013</u></u>

See accompanying notes to financial statements.

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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 53% 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.

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



NORTH CAROLINA ADVANCED ENERGY CORPORATION  
NOTES TO FINANCIAL STATEMENTS

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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, 2014 and 2013, the Company's allowance for doubtful accounts was \$5,000 and \$16,212, 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:

**Unrestricted Net Assets**

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

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NORTH CAROLINA ADVANCED ENERGY CORPORATION  
NOTES TO FINANCIAL STATEMENTS

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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, 2014 and 2013 was \$6,616 and \$9,684, 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 as of December 31, 2014 and 2013.

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The Corporation evaluates all significant tax positions as required by accounting principles generally accepted in the United States of America. As of December 31, 2014, 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 2011.

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 \$1,947,578 and \$1,899,014 at December 31, 2014 and 2013, respectively.

North Carolina investor-owned utilities and electric cooperatives comprise 53% of the Corporation's 2014 revenue and 41% of receivables as of December 31, 2014. The utilities comprised 54% of the Corporation's 2013 revenue and 47% of receivables as of December 31, 2013.

3. Lease Commitments:

The Corporation is obligated under an operating lease for the rental of office space. Rent expense totaled \$495,716 and \$489,718 for 2014 and 2013, respectively.

Future minimum lease payments under operating leases are as follows:

<u>Year ending December 31,</u>	<u>Amount</u>
2015	\$ 504,078
2016	470,529
	<u>\$ 974,607</u>

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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 2014 and 2013 was \$308,096 and \$405,733, 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 provided 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 2014 and 2013, the Corporation charged NCGP for services provided by its staff and use of facilities in the amount of \$465,258 and \$427,073 respectively. As of December 31, 2014 and 2013, the Corporation was due \$82,632 and \$34,222, respectively from NCGP. Also, the Corporation had an outstanding payable of \$51,587 due to NCGP at December 31, 2014. There was no outstanding payable at December 31, 2013.

6. Functional Expenses:

Functional expenses consist of the following:

	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>

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NOTES TO FINANCIAL STATEMENTS

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	2013		
	Products/ Services	Corporate Support	Total
Salaries	\$ 3,363,740	\$ 988,052	\$ 4,351,792
Professional services	454,306	244,527	698,833
Fringe benefits	871,080	270,547	1,141,627
Facilities	637,133	215,078	852,211
Travel and meetings	401,416	168,862	570,278
Other costs	19,770	2,535	22,305
Team expenses	245,454	141,157	386,611
Equipment	97,984	107,409	205,393
	<u>\$ 6,090,883</u>	<u>\$ 2,138,167</u>	<u>\$ 8,229,050</u>

7. Contingencies:

The Corporation determined that certain part-time employees may not have been notified of their eligibility to participate in the 403(b) retirement plan sponsored by the Corporation discussed in Note 4. Management is consulting with an outside firm to assist in evaluating the matter and determining the appropriate course of action.

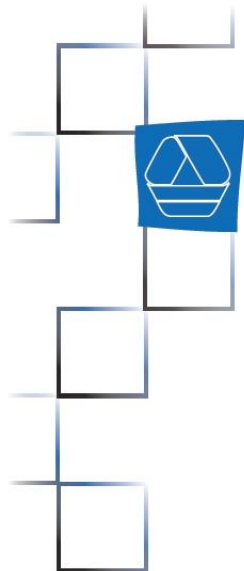
The Corporation will need to make corrective contributions to the plan to make these employees whole. The correction is necessary to insure the plan sponsored by the Corporation retains its qualified plan status.

Management is not able to reasonably estimate the liability at this time and therefore, no liability has been accrued for or recorded in the accompanying financial statements at December 31, 2014.

8. Subsequent Events:

Management has evaluated subsequent events through June 5, 2015, the date which the financial statements were available to be issued. No significant subsequent events have been identified by management.

## COMPLIANCE SECTION



INDEPENDENT AUDITORS' 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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of North Carolina Advanced Energy Corporation, which comprise the statement of financial position as of December 31, 2014, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 5, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered North Carolina Advanced Energy Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of North Carolina Advanced Energy Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of North Carolina Advanced Energy Corporation's internal control over financial reporting.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



## Compliance and Other Matters

As part of obtaining reasonable assurance about whether North Carolina Advanced Energy Corporation's financial statements are free from 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*.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*William Overman Pierce, LLP*

Raleigh North Carolina  
June 5, 2015