

THE SOLAR ENERGY CONSORTIUM, INC.

**Financial Statements as of
December 31, 2015 and 2014
Together with
Independent Auditor's Report**

Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

May 13, 2016

To the Board of Directors of
The Solar Energy Consortium, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of The Solar Energy Consortium, Inc., which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities 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.

Auditor's 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 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 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 Solar Energy Consortium, Inc.'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 Solar Energy Consortium, Inc.'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 The Solar Energy Consortium, Inc. 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.

INDEPENDENT AUDITOR'S REPORT

(Continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 2016 on our consideration of The Solar Energy Consortium, Inc.'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 The Solar Energy Consortium, Inc.'s internal control over financial reporting and compliance.

THE SOLAR ENERGY CONSORTIUM, INC.

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
CURRENT ASSETS:		
Cash	\$ 33,355	\$ 70,161
Accounts receivable	-	8,314
Grants receivable	418,505	77,645
Prepaid expense	<u>5,788</u>	<u>5,800</u>
Total current assets	<u>457,648</u>	<u>161,920</u>
NON-CURRENT ASSETS:		
Deposits	750	750
Property and equipment - net	<u>898,146</u>	<u>886,710</u>
Total noncurrent assets	<u>898,896</u>	<u>887,460</u>
Total assets	<u>\$ 1,356,544</u>	<u>\$ 1,049,380</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 34,808	\$ 62,539
Accrued expenses	4,546	11,397
Due to Department of Energy	-	2,500
Short-term bank borrowings	344,374	-
Deferred revenue, current portion	<u>205,117</u>	<u>179,919</u>
Total current liabilities	588,845	256,355
NON-CURRENT LIABILITIES:		
Deferred revenue, net of current portion	<u>534,987</u>	<u>504,426</u>
Total liabilities	<u>1,123,832</u>	<u>760,781</u>
NET ASSETS:		
Unrestricted net assets	232,712	271,176
Temporarily restricted net assets	<u>-</u>	<u>17,423</u>
Total net assets	<u>232,712</u>	<u>288,599</u>
Total liabilities and net assets	<u>\$ 1,356,544</u>	<u>\$ 1,049,380</u>

The accompanying notes are an integral part of these statements.

THE SOLAR ENERGY CONSORTIUM, INC.

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE AND OTHER SUPPORT:			
Grant income	\$ -	\$ 689,317	\$ 689,317
Contributions	86,355	-	86,355
In-kind goods and services	15,750	-	15,750
Interest income	4	-	4
Net assets released from restrictions	<u>706,740</u>	<u>(706,740)</u>	<u>-</u>
Total revenue and other support	<u>808,849</u>	<u>(17,423)</u>	<u>791,426</u>
EXPENSES:			
Program services	660,250	-	660,250
Management and general	<u>187,063</u>	<u>-</u>	<u>187,063</u>
Total expenses	<u>847,313</u>	<u>-</u>	<u>847,313</u>
CHANGE IN NET ASSETS	(38,464)	(17,423)	(55,887)
NET ASSETS - JANUARY 1, 2015	<u>271,176</u>	<u>17,423</u>	<u>288,599</u>
NET ASSETS - DECEMBER 31, 2015	<u>\$ 232,712</u>	<u>\$ -</u>	<u>\$ 232,712</u>

The accompanying notes are an integral part of these statements.

THE SOLAR ENERGY CONSORTIUM, INC.

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE AND OTHER SUPPORT:			
Grant income	\$ -	\$ 659,053	\$ 659,053
Contributions and other support	18,176	-	18,176
In-kind goods and services	188,209	-	188,209
Lab and equipment usage fees	2,184	-	2,184
Interest income	5	-	5
Net assets released from restrictions	<u>662,478</u>	<u>(662,478)</u>	<u>-</u>
Total revenue and other support	<u>871,052</u>	<u>(3,425)</u>	<u>867,627</u>
EXPENSES:			
Program services	662,346	-	662,346
Management and general	<u>174,053</u>	<u>-</u>	<u>174,053</u>
Total expenses	<u>836,399</u>	<u>-</u>	<u>836,399</u>
CHANGE IN NET ASSETS	34,653	(3,425)	31,228
NET ASSETS - JANUARY 1, 2014	<u>236,523</u>	<u>20,848</u>	<u>257,371</u>
NET ASSETS - DECEMBER 31, 2014	<u>\$ 271,176</u>	<u>\$ 17,423</u>	<u>\$ 288,599</u>

The accompanying notes are an integral part of these statements.

THE SOLAR ENERGY CONSORTIUM, INC.

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (55,887)	\$ 31,228
Adjustments to reconcile change in net assets to net cash flow from operating activities:		
Depreciation	244,488	207,947
Loss on disposition of property	38,670	-
Donation of property	-	(170,140)
Deferred revenue	55,759	(27,888)
Changes in operating assets and liabilities:		
Accounts receivable	8,314	30,186
Grants receivable	(340,860)	13,734
Prepaid expense	12	978
Deposits	-	47
Accounts payable	(27,731)	28,902
Accrued expenses	(6,851)	(5,782)
Due to Department of Energy	<u>(2,500)</u>	<u>(36,000)</u>
Net cash flow from operating activities	<u>(86,586)</u>	<u>73,212</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	<u>(294,594)</u>	<u>(150,991)</u>
Net cash flow from investing activities	<u>(294,594)</u>	<u>(150,991)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from short-term bank borrowings	<u>344,374</u>	<u>-</u>
Net cash flow from financing activities	<u>344,374</u>	<u>-</u>
NET CHANGE IN CASH	(36,806)	(77,779)
CASH - beginning of year	<u>70,161</u>	<u>147,940</u>
CASH - end of year	<u>\$ 33,355</u>	<u>\$ 70,161</u>

The accompanying notes are an integral part of these statements.

THE SOLAR ENERGY CONSORTIUM, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

1. THE ORGANIZATION

The Solar Energy Consortium, Inc. (TSEC) was created in 2007 to lead New York State research on solar systems and to create and grow a solar manufacturing industry in the state. TSEC also applies its successful business model to related industries in the advanced manufacturing sector. TSEC brings together diverse constituencies to overcome the technical and economic obstacles to the widespread use of solar energy and advanced manufacturing technologies. The research is accomplished using TSEC personnel and its University partners and is driven toward advancing commercialization of new solar technology and advanced manufacturing products in partnership with industry. TSEC's revenue is derived primarily from grants.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

TSEC is required to report information regarding its financial position and activities, based on the existence or absence of donor-imposed restrictions, according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Accordingly, the net assets of TSEC, and changes therein, are classified and reported as follows:

Unrestricted net assets: Net assets not subject to donor-imposed stipulations.

Temporarily restricted net assets: Net assets subject to donor-imposed stipulations that may or will be met by actions of TSEC and/or the passage of time.

Permanently restricted net assets: Net assets subject to donor imposed stipulations that may be maintained permanently by TSEC. TSEC does not have any permanently restricted net assets.

The financial statements of TSEC have been prepared in conformity with accounting principles generally accepted in the United States (GAAP). Revenues and other support are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Grant revenue that relates to the acquisition of depreciable property and equipment is deferred and reflected in income over the useful lives of the related assets.

Contributions

Unconditional contributions are recognized as revenues in the period received. Conditional contributions are not recognized as revenues until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of donation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash

TSEC has one grant that requires the related cash to be held in an account separate from other funds.

Receivables

Accounts and grants receivable represent amounts due under grants and professional service contracts to TSEC. Receivables are stated at the amount management expects to collect from outstanding balances. At December 31, 2015 and 2014, management has determined that the receivables are fully collectible; therefore, no allowance for uncollectible accounts is considered necessary. If amounts become uncollectible, they will be charged to expense when that determination is made.

Property and Equipment

Generally, property and equipment costing in excess of \$500 is capitalized. Property and equipment are being depreciated on the straight-line method over the estimated useful lives of the related assets which range from 3 to 15 years. Expenditures for major improvements and betterments to property and equipment are capitalized, and expenditures for repairs and maintenance are expensed as incurred. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. TSEC received donated equipment valued at \$170,140 during 2014. TSEC did not receive any donated property and equipment during 2015.

Certain property acquired with grant resources is owned by TSEC for use in authorized programs. The funding sources retain reversionary interest in certain property purchased with grant funds. Upon disposition of such assets, reimbursement may be payable to the grantor. At December 31, 2014, \$2,500 due to Department of Energy represents the amount owed to a grantor as a result of the sale of an asset.

Income Taxes

TSEC is exempt from income tax pursuant to Section 501(c)(3) of the Internal Revenue Code. In addition, TSEC has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code.

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 for the reporting period and as of the financial statement date. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities, and the reported amounts of revenues and expenses. Actual results could differ from these estimates.

3. PROPERTY AND EQUIPMENT

Property and equipment activity for the years ended December 31, was as follows:

	<u>2015</u>	<u>2014</u>
Lab equipment	\$ 1,389,892	\$ 1,115,769
Machinist training center	166,940	170,140
Leasehold improvements	118,550	166,359
Computer equipment	44,630	24,158
Furniture and equipment	<u>2,535</u>	<u>12,666</u>
Total property, plant and equipment	1,722,547	1,489,092
Less: Accumulated depreciation	<u>(824,401)</u>	<u>(602,382)</u>
Property, plant and equipment, net	<u>\$ 898,146</u>	<u>\$ 886,710</u>

Depreciation expense amounted to \$244,488 and \$207,947 for the years ended December 31, 2015 and 2014, respectively.

4. RELATED PARTY TRANSACTIONS

TSEC paid rent expense of \$13,974 and \$13,841, during the years ended December 31, 2015 and 2014, respectively, to an entity controlled by one of its Board members. The square foot rates of this rent were determined to be at market.

In 2015 and 2014, \$50,000 and \$9,100, respectively, was paid to a corporation where a board member serves as a managing partner. The work was awarded to this corporation in response to a request for proposal issued by TSEC. The responses were evaluated by management and the corporation was determined to be the lowest cost bidder.

A board member, who also serves as the President/CEO of TSEC, provided collateral for a \$50,000 line of credit to supplement the organization's cash position (see Note 5). This transaction was approved by the board and provides no personal inurement to this board member.

5. LINE OF CREDIT

In April 2015, TSEC opened a new line of credit with a local bank with an available balance of \$500,000. The line accrues interest at 4.25%, matures May 31, 2016 and is available only for equipment purchases funded by a specific grant. TSEC received advances of \$294,374 on this line of credit for the year ended December 31, 2015. The line of credit is collateralized by equipment.

On December 17, 2015 the TSEC board approved an additional line of credit that would be secured by collateral owned by a TSEC board member. TSEC received advances of \$50,000 on this line of credit for the year ended December 31, 2015. The line accrues interest at 3.75% and is due on demand. This line of credit is collateralized by an investment account owned by the President/CEO of TSEC.

6. NET ASSETS

Temporarily restricted net assets represent restricted grant funding that has been received, but not fully expended. The unexpended balance of \$17,423 at December 31, 2014 relates primarily to the Dyson Foundation Grant. All amounts have been expended at December 31, 2015.

7. LEASES

TSEC leased office facilities under an operating lease on a month to month basis (See Note 4) through December 31, 2015. This lease was not renewed for 2016. TSEC also leases space for a laboratory with an initial term of August 1, 2012 to July 31, 2014 at a total cost of \$9,600. As of August 1, 2014, the laboratory is being leased on a month to month basis for \$800 per month. TSEC moved its administrative offices to this space in January 2016.

8. CONCENTRATIONS

Approximately 47% and 56% of TSEC's support was provided from grants from the United States government for 2015 and 2014, respectively. Of this amount, 0% and 28% was from the Department of Energy, and 47% and 27% was from the Department of Commerce, for the years ended December 31, 2015 and 2014, respectively. Substantially all of TSEC's grants receivable at December 31, 2014 was from these two agencies. Grant revenue is subject to special audits and a decrease in grant revenue would reduce TSEC's level of activities.

9. SUBSEQUENT EVENTS

Subsequent events have been evaluated by management through May 13, 2016, the date the financial statements were available to be issued.

INDEPENDENT AUDITOR'S 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

May 13, 2016

To the Board of Directors of
The Solar Energy Consortium, Inc.:

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 The Solar Energy Consortium, Inc., which comprise the statement of financial position as of December 31, 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 13, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The Solar Energy Consortium, Inc.'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 The Solar Energy Consortium, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of The Solar Energy Consortium, Inc.'s internal control.

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.

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INDEPENDENT AUDITOR'S 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

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Solar Energy Consortium, Inc.'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 Solar Energy Consortium, Inc.'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 Solar Energy Consortium, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.