THE SOLAR ENERGY CONSORTIUM, INC.

Financial Statements as of
December 31, 2017 and 2016
Together with
Independent Auditor's Report

Bonadio & Co., LLP
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

May 18, 2018

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, 2017 and 2016, 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, 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.

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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 18, 2018 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.

Bonadio & Co., LLP

THE SOLAR ENERGY CONSORTIUM, INC.

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS		
CURRENT ASSETS:		
Cash	$ 122,788	$ 63,956
Accounts receivable, net	-	20,000
Grants receivable	426,749	898,437
Prepaid expense	3,819	3,403
Total current assets	553,356	985,796
NON-CURRENT ASSETS:		
Deposits	750	750
Property and equipment, net	955,231	1,138,059
Total non-current assets	955,981	1,138,809
Total assets	$ 1,509,337	$ 2,124,605
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 56,921	$ 18,743
Accrued expenses	5,014	3,946
Short-term bank borrowings	375,000	856,890
Deferred revenue, current portion	255,422	324,162
Total current liabilities	692,357	1,203,741
NON-CURRENT LIABILITIES:		
Deferred revenue, net of current portion	633,352	723,665
Total liabilities	1,325,709	1,927,406
NET ASSETS:		
Unrestricted net assets	183,628	197,199
Total net assets	183,628	197,199
Total liabilities and net assets	$ 1,509,337	$ 2,124,605

The accompanying notes are an integral part of these statements.

THE SOLAR ENERGY CONSORTIUM, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

	Unrestricted	Temporarily Restricted	Total
REVENUE AND OTHER SUPPORT:			
Grant income	$ -	$ 640,992	$ 640,992
Contributions	50,000	-	50,000
Lab and equipment usage fees	49,500	-	49,500
In-kind goods and services	4,200	-	4,200
Interest income	1,341	-	1,341
Net assets released from restrictions	640,992	(640,992)	-
Total revenue and other support	746,033	-	746,033
EXPENSES:			
Program services	628,478	-	628,478
Management and general	131,126	-	131,126
Total expenses	759,604	-	759,604
CHANGE IN NET ASSETS	(13,571)	-	(13,571)
NET ASSETS - JANUARY 1, 2017	197,199	-	197,199
NET ASSETS - DECEMBER 31, 2017	$ 183,628	$ -	$ 183,628

The accompanying notes are an integral part of these statements.

THE SOLAR ENERGY CONSORTIUM, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

	Unrestricted	Temporarily Restricted	Total
REVENUE AND OTHER SUPPORT:			
Grant income	$ -	$ 869,303	$ 869,303
Contributions	103,593	-	103,593
Lab and equipment usage fees	900		900
Interest income	5	-	5
Net assets released from restrictions	869,303	(869,303)	-
Total revenue and other support	973,801	-	973,801
EXPENSES:			
Program services	842,204	-	842,204
Management and general	167,110	-	167,110
Total expenses	1,009,314	-	1,009,314
CHANGE IN NET ASSETS	(35,513)	-	(35,513)
NET ASSETS - JANUARY 1, 2016	232,712	-	232,712
NET ASSETS - DECEMBER 31, 2016	$ 197,199	$ -	$ 197,199

The accompanying notes are an integral part of these statements.

THE SOLAR ENERGY CONSORTIUM, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ (13,571)	$ (35,513)
Adjustments to reconcile change in net assets to net cash flow from operating activities:		
Depreciation	356,517	305,183
Loss on disposition of property	-	26,500
Provisions for bad debt	20,000	-
Changes in operating assets and liabilities:		
Accounts receivable	-	(20,000)
Grants receivable	471,688	(479,932)
Prepaid expense	(416)	2,385
Accounts payable	26,943	(34,455)
Accrued expenses	1,068	(600)
Deferred revenue	(159,053)	307,723
Net cash flow provided by (used in) operating activities	703,176	71,291
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from disposition of property and equipment	-	1,000
Purchase of property and equipment	(162,454)	(554,206)
Net cash flow used in investing activities	(162,454)	(553,206)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from short-term bank borrowings	218,110	671,616
Payments on short-term bank borrowings	(700,000)	(159,100)
Net cash flow provided by financing activities	(481,890)	512,516
NET CHANGE IN CASH	58,832	30,601
CASH - beginning of year	63,956	33,355
CASH - end of year	$ 122,788	$ 63,956
SUPPLEMENTAL DATA - Interest paid	$ 14,715	$ 20,176
SUPPLEMENTAL DATA - Purchases of property and equipment in accounts payable	$ 29,625	$ 18,390

The accompanying notes are an integral part of these statements.

1. THE ORGANIZATION

The Solar Energy Consortium, Inc. (T-SEC) 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. T-SEC also applies its successful business model to related industries in the advanced manufacturing sector. T-SEC 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 T-SEC personnel and its University partners and is driven toward advancing commercialization of new solar technology and advanced manufacturing products in partnership with industry. T-SEC's revenue is derived primarily from grants.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

T-SEC 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 T-SEC, 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 T-SEC and/or the passage of time.

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

Basis of Accounting

The financial statements of T-SEC have been prepared in accordance 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.

Cash

T-SEC considers all highly liquid investments, except those held for long-term investment, with maturities of three months or less when purchased to be cash equivalents. T-SEC had no cash equivalents at December 31, 2017 or 2016.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables
Accounts and grants receivable represent amounts due under grants and professional service contracts to T-SEC. Receivables are stated at the amount management expects to collect from outstanding balances. At December 31, 2017, the allowance for uncollectible accounts was $20,000. There was no allowance for uncollectible accounts at December 31, 2016. If amounts become uncollectible, they will be charged to expense when that determination is made.

Property and Equipment
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, as well as leasehold improvements, 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.

Certain property acquired with grant resources is owned by T-SEC 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.

Income Taxes
T-SEC is exempt from income tax pursuant to Section 501(c)(3) of the Internal Revenue Code. In addition, T-SEC 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 accordance 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. RELATED PARTY TRANSACTIONS

In 2017 and 2016, $63,531 and $89,975, respectively, was paid to a corporation where a member of the Board of Directors serves as managing partner. The work was awarded to this corporation in response to a request for proposal issued by T-SEC. The responses were evaluated by management and the corporation was determined to be the lowest cost bidder.

In 2016, $3,525 was paid to a law firm where a member of the Board of Directors serves as a partner. There were no transactions with the law firm in 2017.

In 2017, $30,000 was paid to Orange County IDA for services provided to TSEC where a member of the Board of Director serves as the CEO/VP.

A member of the Board of Directors, who also serves as the President and Chief Executive Officer of T-SEC, provided collateral for a $100,000 line of credit to supplement the Organization's cash position (see Note 5). This transaction was approved by the Board of Directors and provides no personal inurement to this individual. The outstanding balance on the line of credit was $75,000 at December 31, 2017.

4. PROPERTY AND EQUIPMENT

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

	2017	2016
Lab equipment	$ 1,820,055	$ 1,802,695
Machinist training center	111,940	111,940
Leasehold improvements	427,711	273,211
Computer equipment	49,763	49,763
Furniture and equipment	4,363	2,535
Total property, plant and equipment	2,413,832	2,240,144
Less: Accumulated depreciation	(1,458,601)	(1,102,085)
Property, plant and equipment, net	$ 955,231	$ 1,138,059

Depreciation expense amounted to $356,517 and $305,183 for the years ended December 31, 2017 and 2016, respectively.

5. LINES OF CREDIT

In May 2016, T-SEC opened a line of credit with a local bank with an available balance of $75,000. In December 2017, this line was replaced with a new line of credit with the same local bank with an available balance of $100,000. The line accrues interest at the prime rate plus one percentage point, or 5.50% at December 31, 2017, matures June 30, 2018 and is due on demand. The line is collateralized by substantially all of T-SEC's unpledged assets. The outstanding balance was zero at December 31, 2017.

In May 2016, T-SEC opened a line of credit with a local bank with an available balance of $750,000. In September 2017, this line was replaced with a new line of credit with the same local bank with an available balance of $1,000,000. The line accrues interest at the prime rate plus one percentage point, or 5.50% at December 31, 2017, matures September 30, 2018 and is available only for equipment purchases funded by a specific grant. The line is collateralized by equipment. The outstanding balance was $300,000 at December 31, 2017.

In September 2017, the T-SEC Board of Directors approved an additional line of credit through the President and Chief Executive Officer of T-SEC with an available balance of $100,000. The President obtained this line of credit from a national bank personally and advanced funds to T-SEC as needed, with T-SEC responsible to pay all principal, interest, and fees associated with the borrowing. The line accrued interest at the bank's base rate less 1.75 percentage points, or 5.00% at December 31, 2017. The line of credit was collateralized by a personal investment account owned by the President and Chief Executive Officer of T-SEC. The outstanding balance was $75,000 at December 31, 2017.

Interest expense amounted to $14,812 and $22,272 for the years ended December 31, 2017 and 2016, respectively.

6. LEASES

In January 2016, T-SEC leased combined office and laboratory facilities under an operating lease on an annual basis for $11,040 per year through December 31, 2016. In January 2017, TSEC renewed through December 31, 2018, only the laboratory facilities lease on an annual basis for $3,600 per year through December 31, 2017.

In December 2017, T-SEC leased office facilities under a sub-lease agreement requiring no payments, with a market value of $4,200 per year. Accordingly, T-SEC recognized in-kind contribution revenue and rental expense in the statement of activities.

Rental expense amounted to $7,800 and $11,040 for the years ended December 31, 2017 and 2016, respectively.

7. CONCENTRATIONS

Approximately 38% and 44% of T-SEC's support was provided by grants from the New York State Urban Development Corporation d/b/a Empire State Development Corporation and New York State Department of Labor, respectively, for 2017. Approximately 24%, 29%, and 36% of T-SEC's support was provided by grants from the United States Department of Commerce, New York State Empire State Development Corporation, and New York State Department of Labor, respectively, for 2016. Approximately 81% and 95% of T-SEC's grants receivable at December 31, 2017 and 2016, respectively, was from the New York State Urban Development Corporation d/b/a Empire State Development Corporation. A decrease in grant revenue would reduce T-SEC's level of activities.

8. SUBSEQUENT EVENTS

Subsequent events have been evaluated by management through May 18, 2018, the date the financial statements were available to be issued.

Bonadio & Co., LLP
Certified Public Accountants

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 18, 2018

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, 2017, 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 18, 2018.

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.

Bonadio & Co., LLP