THE STRATEGIC ECONOMIC CONSORTIUM, INC.

Financial Statements as of December 31, 2018 and 2017 Together with Independent Auditor's Report

Bonadio & Co., LLP
Certified Public Accountants

Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

May 16, 2019

To the Board of Directors of
The Strategic Economic Consortium, Inc.:

Report on the Financial Statements
We have audited the accompanying financial statements of The Strategic Economic Consortium, Inc. (a New York not-for-profit corporation) which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, the statement of functional expenses for the year ended December 31, 2018, 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 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 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 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.

488 Madison Ave., 23rd Floor
New York, NY 10022
p (212) 600-2854

www.bonadio.com

(Continued)

INDEPENDENT AUDITOR'S REPORT
(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Strategic Economic Consortium, Inc. as of December 31, 2018 and 2017 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.

Change in Accounting Principle

As described in Note 2 to the financial statements, The Strategic Economic Consortium, Inc. implemented Accounting Standards Updates 2018-08 and 2016-14, and the effects have been included in these financial statements. Our opinion is not modified with respect to this matter.

Bonadio & Co., LLP

THE STRATEGIC ECONOMIC CONSORTIUM, INC.

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
CURRENT ASSETS:		
Cash	$ 16,441	$ 122,788
Grants receivable	451,199	426,749
Prepaid expenses	3,301	3,819
Other current assets	588	750
Total current assets	471,529	554,106
RESTRICTED CASH	217,062	-
PROPERTY AND EQUIPMENT, net	916,761	955,231
Total assets	$ 1,605,352	$ 1,509,337
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 74,032	$ 61,935
Short-term borrowings	539,413	375,000
Deferred revenue, current portion	10,488	255,422
Total current liabilities	623,933	692,357
DEFERRED REVENUE, net of current portion	-	633,352
Total liabilities	623,933	1,325,709
NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Undesignated	199,007	183,628
Designated for capital	782,412	-
Total net assets without donor restrictions	981,419	183,628
Total liabilities and net assets	$ 1,605,352	$ 1,509,337

The accompanying notes are an integral part of these statements.

THE STRATEGIC ECONOMIC CONSORTIUM, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Without Donor Restrictions			With Donor Restrictions	
	Undesignated	Designated for Capital	Total		Total
REVENUE AND OTHER SUPPORT:					
Grant income	$ -	$ -	$ -	$ 1,631,479	$ 1,631,479
Contributions	2,000	-	2,000	-	2,000
Lab and equipment usage fees	20,000	-	20,000	-	20,000
In-kind goods and services	4,200	-	4,200	-	4,200
Interest income	132	-	132	-	132
Loss on disposal of equipment	-	(14,385)	(14,385)	-	(14,385)
Net assets released from restrictions	565,971	1,065,508	1,631,479	(1,631,479)	-
Total revenue and other support	592,303	1,051,123	1,643,426	-	1,643,426
EXPENSES:					
Program services	433,595	268,711	702,306	-	702,306
Management and general	143,329	-	143,329	-	143,329
Total expenses	576,924	268,711	845,635	-	845,635
CHANGE IN NET ASSETS	15,379	782,412	797,791	-	797,791
NET ASSETS - JANUARY 1, 2018	183,628	-	183,628	-	183,628
NET ASSETS - DECEMBER 31, 2018	$ 199,007	$ 782,412	$ 981,419	$ -	$ 981,419

The accompanying notes are an integral part of these statements.

THE STRATEGIC ECONOMIC CONSORTIUM, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

	Without Donor Restrictions			With Donor Restrictions	Total
	Undesignated	Designated for Capital	Total		
REVENUE AND OTHER SUPPORT:					
Grant income	$ -	$ -	$ -	$ 640,992	$ 640,992
Contributions	50,000	-	50,000	-	50,000
Lab and equipment usage fees	49,500	-	49,500	-	49,500
In-kind goods and services	4,200	-	4,200	-	4,200
Interest income	1,341	-	1,341	-	1,341
Net assets released from restrictions	640,992	-	640,992	(640,992)	-
Total revenue and other support	746,033	-	746,033	-	746,033
EXPENSES:					
Program services	628,478	-	628,478	-	628,478
Management and general	131,126	-	131,126	-	131,126
Total expenses	759,604	-	759,604	-	759,604
CHANGE IN NET ASSETS	(13,571)	-	(13,571)	-	(13,571)
NET ASSETS - JANUARY 1, 2017	197,199	-	197,199	-	197,199
NET ASSETS - DECEMBER 31, 2017	$ 183,628	$ -	$ 183,628	$ -	$ 183,628

The accompanying notes are an integral part of these statements.

THE STRATEGIC ECONOMIC CONSORTIUM, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Program Services	Management and General	Total
Salaries	$ 72,825	$ 64,062	$ 136,887
Payroll taxes	4,418	5,350	9,768
Employee benefits	6,466	4,224	10,690
Total personnel costs	83,709	73,636	157,345
Depreciation	296,399	586	296,985
Professional fees and contracted services	254,340	38,730	293,070
Interest	19,559	4,662	24,221
Grantor required fees	17,619	-	17,619
Moving expenses	15,957	-	15,957
Insurance	3,717	10,117	13,834
Travel	711	6,252	6,963
Small equipment and tools	6,049	-	6,049
Telephone and internet	630	1,969	2,599
Rent	2,100	4,200	6,300
Subscriptions	-	1,787	1,787
Conferences and conventions	-	553	553
Communications	547	-	547
Repairs and maintenance	373	-	373
Printing	95	96	191
Supplies	92	75	167
Postage	49	48	97
Miscellaneous	360	618	978
Total expenses	$ 702,306	$ 143,329	$ 845,635

The accompanying notes are an integral part of these statements.

THE STRATEGIC ECONOMIC CONSORTIUM, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 797,791	$ (13,571)
Adjustments to reconcile change in net assets to net cash flow from operating activities:		
Depreciation	296,985	356,517
Loss on disposition of property	14,385	-
Provision for bad debt	-	20,000
Changes in operating assets and liabilities:		
Grants receivable	(24,450)	471,688
Prepaid expense	518	(416)
Deposits	162	-
Accounts payable	12,097	28,011
Deferred revenue	(878,286)	(159,053)
Net cash flow from operating activities	219,202	703,176
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in restricted cash	(217,062)	-
Purchase of property and equipment	(272,900)	(162,454)
Net cash flow from investing activities	(489,962)	(162,454)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from (repayments on) short-term borrowings, net	164,413	(481,890)
Net cash flow from financing activities	164,413	(481,890)
NET CHANGE IN CASH	(106,347)	58,832
CASH - beginning of year	122,788	63,956
CASH - end of year	$ 16,441	$ 122,788
SUPPLEMENTAL DATA - Interest paid	$ 25,950	$ 14,715
SUPPLEMENTAL DATA - Purchases of property and equipment in accounts payable	$ -	$ 29,625

The accompanying notes are an integral part of these statements.

1. THE ORGANIZATION

The Strategic Economic Consortium, Inc. d/b/a T-SEC (formerly known as The Solar Energy Consortium, Inc.) was created in 2007 and rebranded in 2018, to assist and accelerate the growth of small to medium-sized manufacturers and entrepreneurs. With its business, academic, and development partners, T-SEC has SMARTT LABS and PODS offering specialized characterization and production equipment to aid manufacturing growth in the Hudson Valley region. T-SEC's revenue is derived primarily from grants and contributions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting
The financial statements have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States (GAAP).

Financial Reporting
T-SEC reports its activities and the related net assets using the following categories:

- **Net Assets Without Donor Restrictions**
  Net assets without donor restrictions include operating resources, which are available for the support of T-SEC's operating activities, and resources set aside by the Board of Directors relating to capital purchased with grant funds, over which the Board retains control and may use at its discretion.

- **Net Assets With Donor Restrictions**
  Net assets with donor restrictions include net assets whose use by T-SEC is limited by donor imposed stipulations that do not expire, donor imposed stipulations that expire by the passage of time, or donor imposed stipulations that can be fulfilled or removed by actions of T-SEC. T-SEC had no net assets with donor restrictions at December 31, 2018 or 2017.

Cash and Restricted 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, 2018 or 2017. At times, the balances in these accounts may exceed federally insured limits. T-SEC has not experienced any losses in such accounts and believes there is no significant credit risk with respect to cash.

Restricted cash consists of proceeds from a short-term loan agreement held in a separate account that may only be utilized for the purchase of property and equipment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables

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. The allowance for uncollectible accounts was $20,000 at December 31, 2017. There was no allowance for uncollectible accounts as of December 31, 2018. If amounts become uncollectible, they will be charged to bad debt 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 contributions without donor restrictions 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.

Revenue Recognition

Unconditional grants and contributions are recognized as revenues in the period received. Conditional grants and 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.

Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions. Those expenses include personnel costs, occupancy, and depreciation. Personnel costs are allocated based on estimated time and effort spent in various programs as reported by employees. Occupancy and depreciation are allocated based on square footage of space used by various programs.

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.

Reclassifications

Certain amounts in the 2017 financial statements have been reclassified to conform to the 2018 presentation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Change in Accounting Principles
In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, with the purpose of improving consistency in reporting whether a transfer of assets is a contribution or an exchange transaction. ASU 2018-08 clarifies how an entity determines whether a resource provider is participating in an exchange transaction by evaluating whether the resource provider is receiving commensurate value in return for the resources transferred. Additionally, ASU 2018-08 requires that an entity determine whether a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and whether a right of return of assets transferred exists.

ASU 2018-08 is effective for T-SEC's year ended December 31, 2019; however, T-SEC has elected to early adopt this ASU for the year ended December 31, 2018 on a modified prospective basis, in which the change in accounting principle is applied only to agreements that are either not completed as of, or are entered into after, the adoption date. As a result of adopting this ASU, T-SEC recognized $888,774 in grant income with donor restrictions in 2018.

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, with the purpose of improving financial reporting by not-for-profit entities. ASU 2016-14 changes the presentation and accounting for not-for-profit entities' financial statements including:

- Reducing the number of classes of net assets from three to two (net assets with donor restrictions and net assets without donor restrictions);
- Requiring the presentation of expenses in both natural and functional classifications;
- Eliminating the requirement to disclose the components of investment return as well as reporting investment return net of external and direct internal investment expenses;
- Requiring qualitative and quantitative disclosure regarding an entity's liquidity and availability of resources; and
- Accounting for underwater endowment funds.
- Requiring the placed-in-service approach for reporting expirations of restrictions on gifts of long-lived assets.

ASU 2016-14 is effective for T-SEC's year ended December 31, 2018 and was applied retrospectively (after adoption of ASU 2018-08) with the exception of the presentation of expenses in both natural and functional classifications and the disclosures regarding liquidity and availability of resources. The effects of this ASU have been included in these financial statements. As a result of adopting this ASU, T-SEC released $888,774 from restrictions in 2018.

3. LIQUIDITY

T-SEC has a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, T-SEC also has a committed line-of-credit in the amount of $100,000, which it could draw upon in the event of an unanticipated liquidity need.

T-SEC's financial assets available within one year of the statement of financial position date, December 31, 2018, for general expenditure are as follows:

Cash	$ 16,441
Grants receivable	451,199
Restricted cash	217,062
Total financial assets	684,702
Less: Those unavailable for general expenditure within one year:	
Contractual or donor imposed restrictions:	
Restricted by short-term borrowing agreement	(217,062)
Financial assets available to meet cash needs for general expenditures within one year	$ 467,640

4. RELATED PARTY TRANSACTIONS

In 2018 and 2017, $136,406 and $63,531, 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. T-SEC had amounts payable to this corporation in the amount of $33,125 and $11,313 at December 31, 2018 and 2017, respectively.

In 2018 and 2017, T-SEC received a grant in the amount of $35,000 from Orange County Industrial Development Agency where two members of the Board of Directors serve as the Chief Operating Officer & Executive Vice President and Managing Director, respectively.

A member of the Board of Directors, who also serves as the President and Chief Executive Officer of T-SEC, provided T-SEC with access to a personal line-of-credit with a limit of $100,000 in 2018 and 2017, to supplement the Organization's cash position (see Note 6). T-SEC is responsible for all principal, interest, and fees associated with the borrowing. This transaction was approved by the Board of Directors and provides no personal inurement to this individual. The outstanding balance on this line-of-credit was $90,000 and $75,000 at December 31, 2018 and 2017, respectively. Accrued interest on this line-of-credit was $464 and $858 at December 31, 2018 and 2017, respectively.

In 2018, $8,736 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.

5. PROPERTY AND EQUIPMENT

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

	2018	2017
Lab equipment	$ 2,092,955	$ 1,820,055
Machinist training center	111,940	111,940
Leasehold improvements	405,256	427,711
Computer equipment	47,648	49,763
Furniture and equipment	4,363	4,363
	2,662,162	2,413,832
Less: Accumulated depreciation	(1,745,401)	(1,458,601)
	$ 916,761	$ 955,231

Depreciation expense amounted to $296,985 and $356,517 for the years ended December 31, 2018 and 2017, respectively.

6. SHORT-TERM BORROWINGS

Lines-of-Credit

In December 2017, T-SEC opened a line-of-credit with a local bank with an available balance of $100,000. The line accrued interest at the prime rate plus one percentage point, or 5.50% at December 31, 2017. The line-of-credit matured in June 2018 and was paid in full. This line-of-credit was not subsequently renewed.

In September 2017, T-SEC opened a line-of-credit with the same local bank with an available balance of $1,000,000. The line accrued interest at the prime rate plus one percentage point, or 5.50% at December 31, 2017. This line-of-credit was available only for equipment purchases funded by a specific grant and matured in September 2018 with all outstanding balance paid in full. This line-of-credit was not renewed. The outstanding balance was $300,000 at December 31, 2017.

In September 2017, T-SEC's 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 at December 31, 2018 and 2017. The President obtained this line-of-credit from a national bank personally and will advance funds to T-SEC as needed. T-SEC is responsible to pay all principal, interest, and fees associated with the borrowing. The line accrues interest at the one month LIBOR plus 3.41 percentage points, or 5.93% at December 31, 2018, and the bank's base rate less 1.75 percentage points, or 5.00% at December 31, 2017. The line-of-credit is collateralized by a personal investment account owned by the President and Chief Executive Officer of T-SEC. The outstanding balance was $90,000 and $75,000 at December 31, 2018 and 2017, respectively.

Interest expense totaled $24,221 and $14,812 for the years ended December 31, 2018 and 2017, respectively.

6. SHORT-TERM BORROWINGS (Continued)

Loan Agreement

In October 2018, T-SEC entered into a short-term loan agreement with a local bank in the amount of $449,413, collateralized by equipment. The loan accrues interest at the prime rate, or 5.25% at December 31, 2018. The loan matured in January 2019 at which point all accrued principal and interest were refinanced into a new line-of-credit. The outstanding balance at December 31, 2018 was $449,413.

7. LEASES

In January 2017, T-SEC leased laboratory facilities under an operating lease on an annual basis for $3,600 per year through December 31, 2018. T-SEC terminated this lease in July 2018.

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 goods and services in the statement of activities and donated services in the statement of functional expenses.

Rental expense amounted to $6,300 and $7,800 for the years ended December 31, 2018 and 2017, respectively.

8. CONCENTRATIONS

Approximately 65% and 29% 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 2018. Approximately 38% and 44% of T-SEC's support was provided by grants from the New York State Empire State Development Corporation and New York State Department of Labor, respectively, for 2017. Approximately 50% and 48% of T-SEC's grants receivable at December 31, 2018 was from the New York State Urban Development Corporation d/b/a Empire State Development Corporation and New York State Department of Labor, respectively. Approximately 81% and 17% of T-SEC's grants receivable at December 31, 2017 was from the New York State Urban Development Corporation d/b/a Empire State Development Corporation and New York State Department of Labor, respectively. A decrease in grant revenue would reduce T-SEC's level of activities.

9. SUBSEQUENT EVENTS

Subsequent events have been evaluated by management through May 16, 2019, the date the financial statements were available to be issued.

In January 2019, T-SEC opened a line-of-credit with a local bank with an available balance of $850,000. The line accrues interest at the prime rate plus one percentage point and matures January 31, 2021. This line is only available for equipment purchases funded by a specific grant. The line is collateralized by equipment.