Aquila Technology Corporation

Financial Statements as of and for the Years Ended March 31, 2019 and 2018 with Independent Auditors' Report

AQUILA TECHNOLOGY CORPORATION

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STOWE&DEGON
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITORS' REPORT

Board of Directors
Aquila Technology Corporation
Burlington, Massachusetts

We have audited the accompanying financial statements of Aquila Technology Corporation (the "Company"), which comprises the balance sheets as of March 31, 2019 and 2018, and the related statements of income and retained earnings 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 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. 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 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 misstatements 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Aquila Technology Corporation as of March 31, 2019 and 2018 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Stowe & Degon LLC

April 10, 2019

AQUILA TECHNOLOGY CORPORATION

BALANCE SHEETS
MARCH 31, 2019 AND 2018

	2019	2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 806,736	$ 695,448
Accounts receivable	508,167	548,286
Prepaid expenses and other current assets	93,406	87,744
Total current assets	1,408,309	1,331,478
PROPERTY AND EQUIPMENT - net	59,367	54,135
Total assets	$ 1,467,676	$ 1,385,613
LIABILITIES AND STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 35,583	$ 10,581
Accrued payroll	137,682	168,274
Income taxes payable	35,851	35,851
Total current liabilities	209,116	214,706
STOCKHOLDER'S EQUITY:		
Common stock, par value $0.01; 300,000 shares authorized, 1,000 shares issued and outstanding	10	10
Additional paid in capital	218,653	218,653
Retained earnings	1,039,897	952,244
Total stockholder's equity	1,258,560	1,170,907
Total liabilities and stockholder's equity	$ 1,467,676	$ 1,385,613

See notes to financial statements.

AQUILA TECHNOLOGY CORPORATION

STATEMENTS OF INCOME AND RETAINED EARNINGS
YEARS ENDED MARCH 31, 2019 AND 2018

	2019	2018
REVENUES	$ 3,303,742	$ 3,131,531
OPERATING EXPENSES:		
Professional services	2,312,502	2,070,626
General and administrative	893,050	1,048,365
	3,205,552	3,118,991
INCOME FROM OPERATIONS	98,190	12,540
OTHER INCOME (EXPENSE)		
Interest income	1,482	1,612
Loss on disposal of leasehold improvements	(12,019)	-
	(10,537)	1,612
NET INCOME	87,653	14,152
RETAINED EARNINGS, BEGINNING OF YEAR	952,244	938,092
RETAINED EARNINGS, END OF YEAR	$ 1,039,897	$ 952,244

See notes to financial statements.

AQUILA TECHNOLOGY CORPORATION

STATEMENTS OF CASH FLOWS
YEARS ENDED MARCH 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 87,653	$ 14,152
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation	20,584	20,426
Loss on disposal of leasehold improvements	12,019	-
Changes in operating assets and liabilities:		
Accounts receivable	40,119	(199,469)
Prepaid expenses and other current assets	(5,662)	(15,475)
Accounts payable and accrued expenses	25,002	(43,314)
Accrued payroll	(30,592)	(5,182)
Net cash provided by (used for) operating activities	149,123	(228,862)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	(37,835)	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	111,288	(228,862)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	695,448	924,310
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 806,736	$ 695,448

See notes to financial statements.

1. NATURE OF BUSINESS

Aquila Technology Corporation (the "Company") is a wholly-owned subsidiary of PSI Holding Group, Inc. (the "Parent"). Effective April 1, 2012, the Company's operations were dedicated to providing information technology and consulting services to the United States government and its contractors.

Because the Company provides services ultimately for the benefit of various departments and agencies of the United States government, governance of the Company has been vested in two Proxy holders to assure that there is independence, separation of operations and lack of interdependence among the Company and related affiliates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting – The Company's financial statements are prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United Stated of America.

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 that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition – The Company bills and recognizes revenue as services are provided.

Cash and Cash Equivalents – Investments with an original maturity of three months or less have been classified as cash equivalents in the accompanying financial statements. At March 31, 2019 and 2018, cash equivalents consist of a money market account.

Concentrations of Credit Risk – Financial instruments that potentially subject the Company to credit risk consist primarily of cash and accounts receivable. The Company maintains substantially all of its cash in a single financial institution, which management believes to be of high credit quality.

The Company grants credit to its primary customers in the ordinary course of business and does not require collateral. If the Company deems it necessary, an allowance for doubtful accounts is established. No allowance for doubtful accounts was recorded at March 31, 2019 and 2018.

Property and Equipment – Property and equipment are stated at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over useful lives of five years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes – The Company is included in the Parent's consolidated income tax returns. The provision for income taxes represents a charge from the Parent for Aquila's respective portion of the consolidated income tax liability based on statutory rates currently in effect. There was no charge for income taxes required by the Parent for the years ended March 31, 2019 or 2018.

Subsequent Events – The Company has evaluated subsequent events through April 10, 2019, the date the financial statements were available to be issued.

3. INTERCOMPANY TRANSACTIONS

The net balances due to Parent include accrued income taxes of $35,851 at March 31, 2019 and 2018, for which payment has not been requested.

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at March 31:

	2019	2018
Office equipment	77,079	$ 53,589
Website design	39,500	39,500
Leasehold improvements	14,344	17,930
	130,923	111,019
Less accumulated depreciation	(71,556)	(56,883)
Property and equipment, net	$ 59,367	$ 54,136

5. OPERATING LEASE

The Company leases office space in Burlington, Massachusetts under a lease which expires in April 2026 and an office in Virginia on a month to month basis. Total rent expense was $43,753 in 2019 and $43,921 in 2018. Future minimum lease payments are as follows:

Year ending March 31,	
2020	$ 36,698
2021	62,505
2022	65,365
2023	67,138
2024	68,911
Thereafter	149,191
	$ 449,808

6. BANK LINE OF CREDIT

In November, 2015, the Company entered into a demand revolving line of credit with a bank that permits borrowing up to $350,000, secured by all business assets. The line of credit bears interest at the Wall Street Journal prime rate (5.5% at March 31, 2019). There were no outstanding borrowings at March 31, 2019 or 2018.

7. EMPLOYEE BENEFIT PLAN

The Parent sponsors a 401(k) retirement plan in which Company employees are eligible to participate. The Company contributes a discretionary match to the plan. The Company contribution was $52,685 and $48,260 in 2019 and 2018, respectively.

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