

EMERGE AMERICAS, LLC

FINANCIAL STATEMENTS AND
FLORIDA SINGLE AUDIT REPORTS

DECEMBER 31, 2018 AND 2017



EMERGE AMERICAS, LLC

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INDEPENDENT AUDITOR'S REPORT

To the Members of
eMerge Americas, LLC

Report on the Financial Statements

We have audited the accompanying financial statements of eMerge Americas, LLC (the "Company"), which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of operations and changes in members' equity 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 *Government Auditing Standards*. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of eMerge Americas, LLC as of December 31, 2018 and 2017, 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.

An independent member of Baker Tilly International

To the Members of
eMerge Americas, LLC
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Emphasis of Matter

As discussed in Note 2 to the financial statements, the Company incurred a net loss of \$3,386,544 (including amortization of goodwill of \$2,851,181) and \$1,229,735 (including amortization of \$715,983) for the years ended December 31, 2018 and 2017, respectively. Management has provided us with their plans to reduce these losses. In the event the Company does not meet its operating plans and budgets, the members are committed to the success of the Company which may include additional funding, although currently there are no legally binding commitments to provide such additional funding if required. Since the ultimate outcome of this uncertainty is unknown at this time, these financial statements do not include any adjustments that may be required as a result. Our opinion has not been modified with respect to this matter.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of state financial assistance is presented for purposes of additional analysis as required by Chapter 10.650, Rules of the Florida Auditor General and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2019, on our consideration of the Company's internal control over financial reporting and 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 Company's internal control over financial reporting and compliance.

Morrison, Brown, Ariz & Fama

Miami, Florida
May 17, 2019

EMERGE AMERICAS, LLC

BALANCE SHEETS
DECEMBER 31,

ASSETS	2018	2017
CURRENT ASSETS		
Cash	\$ 437,804	\$ 317,903
Accounts receivable, net	251,022	155,001
Accounts receivable, related party	-	55,528
Prepaid expenses and other current assets	204,470	277,893
TOTAL CURRENT ASSETS	893,296	806,325
GOODWILL, NET	2,851,180	5,702,361
TOTAL ASSETS	\$ 3,744,476	\$ 6,508,686
LIABILITIES AND MEMBERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 110,878	\$ 88,349
Deferred revenue	558,343	187,071
TOTAL CURRENT LIABILITIES	669,221	275,420
COMMITMENTS AND CONTINGENCIES (NOTE 8)		
TOTAL MEMBERS' EQUITY	3,075,255	6,233,266
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 3,744,476	\$ 6,508,686

The accompanying notes are an integral part of these financial statements.

EMERGE AMERICAS, LLC

STATEMENTS OF OPERATIONS AND CHANGES IN MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31,

	2018	2017
REVENUE		
Revenue	\$ 3,743,552	\$ 3,683,446
Revenue, related party	<u>250,000</u>	<u>250,000</u>
TOTAL REVENUE	3,993,552	3,933,446
COST OF REVENUE	<u>2,345,913</u>	<u>2,483,976</u>
GROSS PROFIT	1,647,639	1,449,470
OPERATING EXPENSES		
Amortization of goodwill	2,851,181	715,983
Equity-based incentive compensation (Note 5)	228,533	-
General and administrative expenses	<u>1,954,469</u>	<u>1,963,222</u>
TOTAL OPERATING EXPENSES	<u>5,034,183</u>	<u>2,679,205</u>
NET LOSS	<u>(3,386,544)</u>	<u>(1,229,735)</u>
MEMBERS' EQUITY, BEGINNING OF YEAR	6,233,266	7,463,001
EQUITY-BASED INCENTIVE COMPENSATION (NOTE 5)	<u>228,533</u>	<u>-</u>
MEMBERS' EQUITY, END OF YEAR	<u>\$ 3,075,255</u>	<u>\$ 6,233,266</u>

The accompanying notes are an integral part of these financial statements.

EMERGE AMERICAS, LLC

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (3,386,544)	\$ (1,229,735)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Amortization of goodwill	2,851,181	715,983
Bad debt expense	-	34,408
Barter transactions (Note 7)	41,674	(72,789)
Equity-based incentive compensation	228,533	-
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	(96,021)	185,958
Accounts receivable, related party	55,528	(180,528)
Prepaid expenses and other current assets	31,749	(120,392)
Increase (decrease) in:		
Accounts payable and accrued expenses	22,529	12,594
Deferred revenue	371,272	27,031
TOTAL ADJUSTMENTS	<u>3,506,445</u>	<u>602,265</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>119,901</u>	<u>(627,470)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Deposits	-	(16,480)
NET CASH USED IN INVESTING ACTIVITIES	<u>-</u>	<u>(16,480)</u>
NET INCREASE (DECREASE) IN CASH	119,901	(643,950)
CASH, BEGINNING OF YEAR	<u>317,903</u>	<u>961,853</u>
CASH, END OF YEAR	<u>\$ 437,804</u>	<u>\$ 317,903</u>

The accompanying notes are an integral part of these financial statements.

EMERGE AMERICAS, LLC

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

On December 18, 2015, eMerge Americas, LLC ("EALLC", or the "Company") was incorporated in the State of Delaware and operates in Florida. The Company acquired all of the assets and liabilities of Foundation Technology of the Americas ("FTA"), which operated the eMerge Americas conference (the "Conference") in a transaction accounted for as a business combination. The Chairman of the Board of FTA is also a material unit holder in EALLC (Note 3).

The primary focus of the Company is to help advance the technology ecosystem in South Florida, through the Conference, a large-scale, annual technology symposium, based in Miami, Florida, that attracts a diverse number of technology companies and Latin America's key IT decision makers. The Conference serves as the platform for the advancement of technology, a forum of ideas and a launch-pad for innovation.

At December 31, 2018 and 2017, the Company had three LLC members. As a limited liability company, each member's liability is limited to amounts reflected in their respective member capital accounts.

Basis of Presentation

The financial statements of the Company have been prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Management Estimates

The preparation of financial statements in conformity with U.S. GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and those differences may be material.

Risks and Uncertainties

The Company operates in an industry that is subject to rapid change and intense competition. The Company's operations will be subject to significant risk and uncertainties including financial, operational, technological, and other market risks, including the potential risk of business failure in the event that the annual technology conference does not occur.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less at the date of purchase and money market accounts to be cash equivalents. As of December 31, 2018 and 2017, the Company had no cash equivalents and all cash amounts consisted of cash on deposit.

Concentration of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash deposits in excess of the Federal Deposit Insurance Corporation insured limit of \$250,000. The Company generally limits its exposure by placing its deposits with quality financial institutions. At times, such balances may exceed these insured limits.

Concentrations

Accounts receivable totaling approximately \$250,000 and \$150,000 from one and two customers represented approximately 99% and 88% of total accounts receivable at December 31, 2018 and 2017, respectively.

EMERGE AMERICAS, LLC

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentrations (Continued)

Revenues totaling approximately \$1,026,000 and \$1,000,000 from two customers represented approximately 26% and 25% of total revenues for the years ended December 31, 2018 and 2017, respectively.

Vendor payments totaling approximately \$1,214,000 to one vendor represented approximately 50% of total vendor payments for the year ended December 31, 2017. There was no significant concentration of vendor payments for the year ended December 31, 2018.

Accounts Receivable, Net

Accounts receivable consists of sponsorships receivables. Management reviews its receivable balances for uncollectible accounts on a monthly basis and either directly writes them off or creates an allowance for doubtful accounts. The allowance for doubtful accounts is determined taking into account the financial condition of the Company's sponsors, current general economic conditions, and the age of certain balances due to the Company. Receivables are charged off after all means of collection have been exhausted.

The allowance for doubtful accounts as of December 31, 2018 and 2017 was \$0 and \$15,000, respectively. During the years ended December 31, 2018 and 2017, the Company recorded bad debt expense totaling \$0 and \$34,408, respectively.

Accounts Receivable, Related Party

Accounts receivable, related party, consists of reimbursements, loans and sponsorship agreements with related parties (Note 3).

Prepaid Expenses and Other Current Assets

Prepaid expenses consist of payments the Company has made in advance for facility rental and related services necessary for the 2019 annual conference. Additionally, the Company records a prepaid expense for barter agreements entered with customers, if the Company delivers sponsorship services to the customer prior to receiving the customer barter credits (Note 7). Other current assets consist of deposits made in operating leases.

Goodwill, Net and Change in Estimate

During the year ended December 31, 2015, the Company adopted the accounting alternative for goodwill available to private companies under Financial Accounting Standards Board ("FASB") ASC 350-20. Accordingly, the Company began amortizing goodwill on a straight-line basis over 10 years.

The Company evaluates goodwill for impairment at the entity level when a triggering event occurs that indicates that the fair value of the entity may be below its carrying amount. When a triggering event occurs, the Company first assesses qualitative factors to determine whether the quantitative impairment test is necessary. If that qualitative assessment indicates that it is more likely than not that goodwill is impaired, the Company performs the quantitative test to compare the entity's fair value with its carrying amount, including goodwill. If the qualitative assessment indicates that it is not more likely than not that goodwill is impaired, further testing is unnecessary. The goodwill impairment loss, if any, represents the excess of the carrying amount of the entity over its fair value. No triggering events occurred during the years ended December 31, 2018 and 2017, that required goodwill impairment testing and, accordingly, no impairment loss was recorded during the years ended December 31, 2018 and 2017.

EMERGE AMERICAS, LLC

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill, Net and Change in Estimate (Continued)

Effective January 1, 2018, the Company reviewed the estimated useful life of its goodwill. As previously noted, although there were no indicators of impairment, due to the nature of the Company's business and accelerating pace of change, the Company changed its estimated useful life for goodwill from 10 total years (the maximum allowed under the accounting alternative for private companies) to 4 years (amortization will cease December 31, 2019), in order to better reflect the estimated periods during which this asset will provide expected benefits.

The effect of this change in estimate was to increase amortization expense and net loss by \$2,135,198, for the year ended December 31, 2018. The following summarizes the change in estimate for the year ended December 31, 2018:

Amortization expense before change in estimate	\$ 715,983
Additional amortization expense due to change in estimate	<u>2,135,198</u>
Amortization expense for the year ended December 31, 2018	<u>\$ 2,851,181</u>

Fair Value Measurements

The Company's financial instruments consist principally of accounts receivable and accounts payable. The carrying amounts of these financial instruments approximate fair value due to their short-term maturities.

Dividends

The Company has never declared or paid dividends to any of its members. The Company currently expects to retain future earnings for operations. Preferred dividends are due to the Company's Class A & B members. See Note 5 for discussion of preferred dividends as well as the Company's profits interest plan.

Revenue Recognition

Sponsorships/Deferred Revenue

The Company receives sponsorships from corporations and individuals. The sponsorships received are designated for an event by the sponsor. Any sponsorship funds received in advance of the event and any sponsorship contracts signed as of December 31, 2018 and 2017 are reflected as deferred revenue for each respective year. Sponsorship revenue is recognized when the designated event occurs.

Grants

The Company receives grant funds from state and county agencies. The amounts received under these grants are designated for specific purposes by the granting agencies. Grants are recognized when the allowable costs as defined by the individual grant agreement are incurred.

Event Registration

Event registration is generally recorded as revenue in the period in which the registration is earned. Event registration paid in advance is deferred and recognized as income in the period in which the event takes place.

EMERGE AMERICAS, LLC

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

A summary of all revenue earned is as follows for the years ended December 31,:

	<u>2018</u>	<u>2017</u>
Sponsorship revenue	\$ 2,405,824	\$ 2,429,317
Grant revenue	1,458,094	1,250,000
Event registration revenue	129,634	254,129
	<u>\$ 3,993,552</u>	<u>\$ 3,933,446</u>

Advertising Costs

Advertising costs are charged to expense during the year in which they are incurred. Advertising costs totaled approximately \$498,000 and \$552,000 for the years ended December 31, 2018 and 2017, respectively.

Income Taxes

The Company is treated as a partnership for federal income tax purposes and, accordingly, generally would not incur income taxes or have any unrecognized tax benefits. Instead, its earnings and losses are included in the tax return of its members and taxed depending on the member's personal tax situation. As a result, the financial statements do not reflect a provision for income taxes.

The Company recognizes and measures tax positions taken or expected to be taken in its tax return based on their technical merit and assesses the likelihood that the positions will be sustained upon examination based on the facts, circumstances and information available at the end of each period. Interest and penalties on tax liabilities, if any, would be recorded in interest expense and other non-interest expense, respectively.

The U.S. Federal jurisdiction is the major tax jurisdiction where the Company files income tax returns. The Company is generally no longer subject to U.S. Federal examinations by tax authorities for years before 2015.

Recent Accounting Pronouncements

Revenue from Contracts with Customers

In May 2014, the FASB issued an accounting standard update which affects the revenue recognition of entities that enter into either (1) certain contracts to transfer goods or services to customers or (2) certain contracts for the transfer of nonfinancial assets. The update indicates an entity should recognize revenue in an amount that reflects the consideration the entity expects to be entitled to in exchange for the goods or services transferred by the entity. The update is to be applied to the beginning of the year of implementation or retrospectively and is effective for annual periods beginning after December 15, 2018 and in interim periods in annual periods beginning after December 15, 2019. Early application is permitted, but no earlier than annual reporting periods beginning after December 15, 2016. The Company is currently evaluating the effect the update will have on its financial statements.

Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued an accounting standard update which amends the guidance for reporting the fair value of financial assets and liabilities. The amendments in this update address certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The update is effective for annual periods beginning after December 15, 2018 and interim periods within those annual periods. Early adoption is not permitted. The Company is currently evaluating the impact this guidance will have on its financial statements.

EMERGE AMERICAS, LLC

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (Continued)

Lease Accounting

In February 2016, the FASB issued an accounting standards update which amends existing lease guidance. The update requires lessees to recognize a right-of-use asset and related lease liability for many operating leases now currently off-balance sheet under current U.S. GAAP. Also, the FASB has issued amendments to the update with practical expedients related to land easements and lessor accounting. The Company is currently evaluating the effect the update will have on its financial statements.

The update originally required transition to the new lease guidance using a modified retrospective approach which would reflect the application of the update as of the beginning of the earliest comparative period presented. A subsequent amendment to the update provides an optional transition method that allows entities to initially apply the new lease guidance with a cumulative-effect adjustment to the opening balance of equity in the period of adoption. If this optional transition method is elected, after the adoption of the new lease guidance, the Company's presentation of comparative periods in the financial statements will continue to be in accordance with current lease accounting. The Company is evaluating the method of adoption it will elect. The update is effective for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020, with early application permitted.

Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued an accounting standard update to reduce diversity in practice on eight specific statement of cash flows issues. The update is effective retrospectively for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, with early adoption permitted. The Company is currently evaluating the effect the update will have on its financial statements.

Simplifying the Test for Goodwill Impairment

In January 2017, the FASB issued an accounting standards update to simplify the accounting for goodwill impairment. The update removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. The update specifies that a goodwill impairment charge will now be recognized for the amount by which the carrying value of a reporting unit exceeds its fair value, not to exceed the carrying amount of goodwill. The update is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, with early adoption permitted for any impairment tests performed after January 1, 2017. The Company is currently evaluating the effect the update will have on its financial statements.

Reclassifications

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

Subsequent Events

The Company has evaluated subsequent events through May 17, 2019, which is the date the financial statements were available to be issued.

2. NET LOSS AND MANAGEMENT'S PLANS

For the years ended December 31, 2018 and 2017, the Company had a net loss of \$3,386,544 (including amortization of goodwill of \$2,851,181) and \$1,229,735 (including amortization of goodwill of \$715,983), respectively. The Company secured sponsorships for its 2019 annual technology conference, which occurred in April 2019. Management believes that the Company has stabilized its operations and expects to be profitable in 2019 and 2020 before amortization of goodwill. Management expects the Company to meet its obligations in the normal course of business without additional outside funding, including financial support from one or all of its members. In the event the Company does not meet its operating plans and budgets, its members are committed to the success of the Company which may include additional funding, although currently there are no legally binding commitments to provide such additional funding if required.

EMERGE AMERICAS, LLC

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

3. RELATED PARTY TRANSACTIONS

The Company engages in activities with companies owned by a significant (greater than 10%) member of the Company. This member is the managing partner at Medina Capital Advisors, LLC ("Medina Capital"). During the year ended December 31, 2017, the Company paid rent fees of \$76,822 for shared office space at Medina Capital offices.

The Company relocated its offices in July 2017 (Note 8) and leased space from a non-related party. Also, during the year ended December 31, 2017, Medina Capital reimbursed the Company for insurance fees of approximately \$43,000 incurred by the Company for two employees that are under the Company's insurance plan, but work solely for Medina Capital.

Amounts due to the Company from Medina Capital at December 31, 2018 and 2017 are approximately \$0 and \$31,000, respectively, and are included within "Accounts receivable, related party" in the accompanying balance sheets.

Additionally, in March 2017, the Company loaned \$25,000 to the new Chief Commercial Officer ("CCO") and signed a loan agreement at an annual interest of 0%. The loan will be forgiven on increments of 33.33% on each of the first three one-year anniversary dates following the inception of the agreement, provided the employee remains with the Company. At December 31, 2017, the CCO owed the Company the full amount of the loan and amount is included within "Accounts receivable, related party" in the accompanying balance sheets. At December 31, 2018, the amount was forgiven due to the employee leaving the Company and recorded as a component of general and administrative expenses on the Statements of Operations and Changes in Members' Equity.

4. GOODWILL, NET

Goodwill, net consists of the following at December 31,:

	<u>2018</u>	<u>2017</u>
Goodwill	\$ 7,159,827	\$ 7,159,827
Less: accumulated amortization	<u>(4,308,647)</u>	<u>(1,457,466)</u>
Goodwill, net	<u>\$ 2,851,180</u>	<u>\$ 5,702,361</u>

Amortization of goodwill for the years ended December 31, 2018 and 2017 was \$2,851,181 and \$715,983, respectively. See Note 1 for discussion of change in estimate related to goodwill.

Future amortization of goodwill is \$2,851,180 for the year ended December 31, 2019.

5. MEMBERS' EQUITY

Cumulative Preferred Dividends

On December 18, 2015, the Company issued 20,000 Class A units for \$10,000,000 (\$500/unit) and 2,350 Class B units for \$1,175,000 (\$500/unit).

In connection with the issuance of these units, the members are entitled to a dividend of 8% on all outstanding member capital balances. Dividends will cease at the time a member's capital balance is \$0. The Class A units are entitled to one vote per unit, Class B units are non-voting.

EMERGE AMERICAS, LLC

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

5. MEMBERS' EQUITY (CONTINUED)

Cumulative Preferred Dividends (Continued)

As of December 31, 2018 and 2017, the Company had not declared any dividends related to the Class A and B members and does not expect to declare any dividends until sufficient profits have been earned. However, under the terms of the arrangement with its Class A and B members, an amount of \$2,713,841 and \$1,819,941, represents the current amount of undeclared and unpaid dividends at December 31, 2018 and 2017, respectively, and there is no accrual on the accompanying balance sheets.

Equity-Based Incentive Compensation

On December 18, 2015, the Company created a Profits Interest Plan (the "Plan") to provide an additional incentive to attract and retain qualified competent employees. The Plan is administered by the managers who may grant awards under the Plan. The managers will determine the applicable vesting dates, conditions to vesting and restrictions on transferability and any other restrictions for profits interest awards.

As defined in the Plan Agreements, the managers have established a hurdle amount of \$11,000,000 in annual profits plus the cumulative 8% annual preferred return on the Class A and B units discussed above. Once the hurdle has been met, the holders of these profits interest would then be eligible to participate in any distributions of profits, however, the Company is only required to make payments in the aggregate amount of up to 20% of the Company's earnings before interest, tax, depreciation and amortization for the immediate preceding fiscal year financial results. The Company reflects net losses for each of the years ended December 31, 2018 and 2017, therefore, no payments were due.

The Plan allows for the grant of 4,257, non-voting, Class C units. The Plan terminates 10 years from its inception, unless extended by the managers. All units which are granted represent expected future services to be rendered and vest ratably over a 4-year period. The following is a summary of the Class C units outstanding at December 31, 2018 and 2017:

	<u>Number of Class C Profits Interest Units Outstanding</u>	<u>4-Year Ratable Vesting Period</u>
Balance, January 1, 2017	1,594	2016 - 2019
Granted	1,064	2018 - 2021
Balance, December 31, 2017	2,658	
Granted	665	2019 - 2022
Forfeited	(532)	
Balance, December 31, 2018	<u>2,791</u>	

The Company recorded equity-based incentive compensation expense of \$228,533 for the year ended December 31, 2018 (and for the years prior to 2018, these amounts were less than \$70,000), based upon the number of Class C units which vested.

The fair value of the Class C unit compensation was determined using a Black-Scholes option pricing model with the following inputs for the year ended December 31, 2018:

Fair value per unit	\$ 170
Expected volatility	23.26%
Risk-free interest rate	1.86%
Expected term (in years)	6.77
Expected dividend rate	0%
Class A and B preferred distribution rate	8%

EMERGE AMERICAS, LLC

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

5. MEMBERS' EQUITY (CONTINUED)

Equity-Based Incentive Compensation (Continued)

The following is a summary of Class C units vested at December 31, 2018 and 2017:

	Number of Class C Profits Interest Units Vested
Balance, January 1, 2017	399
Vested	399
Balance, December 31, 2017	798
Vested	665
Forfeited	(532)
Balance, December 31, 2018	931

The intent of this Plan was to constitute a profits interest under Internal Revenue Procedure 93-27, and that no current tax obligation for the recipient exists due to the grant or related vesting provisions.

6. FAIR VALUE MEASUREMENTS

Fair Value Hierarchy

The fair value of a financial instrument is the amount that would be received in an asset sale or paid to transfer a liability in an orderly transaction between unaffiliated market participants. Assets and liabilities measured at fair value are categorized based on whether the inputs are observable in the market and the degree that the inputs are observable. The categorization of financial instruments within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement. The hierarchy is prioritized into three levels (with Level 3 being the lowest) defined as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.

Level 2: Observable inputs other than prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated with observable market data.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies, and similar techniques that use significant unobservable inputs.

7. NONMONETARY TRANSACTIONS

Barter Transactions

During the years ended December 31, 2018 and 2017, the Company entered into a barter agreement with a customer, which is a major airline, whereby it delivered sponsorship services for the 2018 and 2017 Conference in exchange for travel credits. The travel credits, which will have no expiration, are valued at the fair market value of sponsorship services provided by the Company.

Barter revenue is recognized at the estimated fair value of the services provided by the Company, based on recent historical cash transactions and when the sponsorship services are provided to the customer. Travel expenses are recorded when the Company utilizes the services from the customer. If the Company receives the services from the customer prior to its delivery of the sponsorship services, a liability is recorded.

EMERGE AMERICAS, LLC

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

7. NONMONETARY TRANSACTIONS (CONTINUED)

Barter Transactions (Continued)

If the Company delivers the sponsorship services to the customer prior to receiving the customer travel services, a prepaid expense is recorded on the balance sheets.

For each of the years ended December 31, 2018 and 2017, the Company recognized approximately \$115,000 of sponsorship revenues, and approximately \$157,000 and \$59,000 of travel expenses, respectively, from barter transactions.

At December 31, 2018 and 2017, the Company has recorded barter credits available to be used of approximately \$31,000 and \$73,000, respectively, which is included in "Prepaid expenses and other current assets" on the accompanying balance sheets.

The following is a summary of all prepaid barter credits at December 31, 2018 and 2017:

	<u>Prepaid Barter Credits</u>	
Balance, January 1, 2017	\$	17,124
Barter credits granted		115,000
Travel expense incurred		(59,335)
Balance, December 31, 2017		<u>72,789</u>
Barter credits granted		115,000
Travel expense incurred		(156,674)
Balance, December 31, 2018	\$	<u>31,115</u>

Reciprocal Arrangements

On occasion, the Company has purchased goods or services for its operations from organizations at or about the same time that it has provided sponsorship services to these organizations. These transactions are recorded at terms the Company considers to be fair value. Transactions involving the exchange of boot representing 25% or greater of the fair value of the reciprocal arrangement are considered monetary transactions. Monetary transactions and nonmonetary transactions that represent the culmination of an earnings process are recorded at the fair value of the products delivered or products or services received, whichever is more readily determinable, providing the fair values are determinable within reasonable limits.

In determining the fair values, the Company considers the recent history of cash sales of the same products or services in similar sized transactions. Revenues from such transactions may be recognized over a period of time as the products or services are received. For nonmonetary reciprocal arrangements that do not represent the culmination of the earnings process, the exchange is recorded based on the carrying value of the products delivered, which is generally zero.

During the years ended December 31, 2018 and 2017, the Company recognized revenue under reciprocal arrangements of approximately \$15,000 and \$61,000, respectively, which represented nonmonetary transactions, as defined above.

EMERGE AMERICAS, LLC

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

8. COMMITMENTS AND CONTINGENCIES

Litigation

The Company is exposed to various asserted and unasserted potential claims encountered in the normal course of business. In the opinion of management, the resolution of these matters will not have a material effect on the financial position or results of operations of the Company. There are no current, pending, threatened or resolved matters.

Operating Leases

The Company relocated their offices during the year ended December 31, 2017 and entered into two non-cancellable agreements for offices in South Florida and the DC area. The agreement for the office in South Florida was renewed and expires in December 2019 and the office in the DC area was not renewed.

Minimum future lease payments under these operating leases are approximately \$93,000 for the year ended December 31, 2019. Rent expense for the years ended December 31, 2018 and 2017 was approximately \$90,000 and \$137,000, respectively.

Grants

Any funding source may, at its discretion, request return of funds as a result of non-compliance with the terms of the grants. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this date.

FLORIDA SINGLE AUDIT REPORTS



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

To the Members of
eMerge Americas, LLC

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 eMerge Americas, LLC (the "Company"), which comprise the balance sheet as of December 31, 2018, and the related statements of operations and changes in members' equity and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated May 17, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Company'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 Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company'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*.

To the Members of
eMerge Americas, LLC
Page Two

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 Company'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 Company's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Monison, Brown, Ariz & Fama

Miami, Florida
May 17, 2019



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR STATE PROJECT AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY CHAPTER 10.650, RULES OF THE AUDITOR GENERAL OF THE STATE OF FLORIDA

To the Members of
eMerge Americas, LLC

Report on Compliance for each Major State Project

We have audited eMerge Americas, LLC (the "Company") compliance with the types of compliance requirements described in the Department of Financial Services' State Projects Compliance Supplement that could have a direct and material effect on each of the Company's major state projects for the year ended December 31, 2018. The Company's major state projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state projects.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Company's major state projects based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.650, Rules of the Florida Auditor General. Those standards and Chapter 10.650, Rules of the Florida Auditor General require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state project occurred. An audit includes examining, on a test basis, evidence about the Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state project. However, our audit does not provide a legal determination of the Company's compliance.

Opinion on Each Major State Project

In our opinion, the Company complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major state project identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended December 31, 2018.

Report on Internal Control Over Compliance

Management of the Company is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Company's internal control over compliance with the types of requirements that could have a direct and material effect on each major state project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state project and to test and report on internal control over compliance in accordance with Chapter 10.650, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over compliance.

Report on Internal Control Over Compliance (Continued)

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state project on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state project will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state project that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Chapter 10.650, Rules of the Florida Auditor General. Accordingly, this report is not suitable for any other purpose.

Monison. Brown, Ariz & Jana

Miami, Florida
May 17, 2019

SUPPLEMENTAL INFORMATION

EMERGE AMERICAS, LLC

SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED DECEMBER 31, 2018

<u>State Grantor</u> <u>State Project Title</u>	<u>CSFA</u> <u>Number</u>	<u>Contract/ Grant</u> <u>Number</u>	<u>Transfer to</u> <u>Sub-recipients</u>	<u>Expenditures</u>
State of Florida Department of Economic Opportunity				
Local Economic Development Initiatives	40.012	SL031, SL042	\$ -	\$ 750,000
Total Expenditures of State Financial Assistance			\$ -	\$ 750,000

EMERGE AMERICAS, LLC

NOTES TO SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE FOR THE YEAR ENDED DECEMBER 31, 2018

1. GENERAL INFORMATION

The accompanying Schedule of Expenditures of State Financial Assistance (the "Schedule") presents the activity of all state projects of eMerge Americas, LLC.

2. BASIS OF PRESENTATION

The accompanying Schedule is presented using the accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements of Chapter 10.650, Rules of the Florida Auditor General. The amounts reported in the Schedule as expenditures may differ from certain financial reports submitted to State funding agencies due to those reports being submitted on either a cash or modified accrual basis of accounting.

3. SUB-RECIPIENTS

None of the expenditures of state financial assistance included in the Schedule were paid or provided to sub-recipients.

EMERGE AMERICAS, LLC

**SCHEDULE OF FINDINGS AND
QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

SECTION I – SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None Reported

Noncompliance material to financial statements noted? _____ Yes X No

State Projects

Internal control over major projects:

Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None Reported

Type of auditor's report issued on compliance for major projects: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Chapter 10.650, Rules of the Florida Auditor General _____ Yes X No

Identification of major state project:

<u>CSFA Number</u>	<u>Name of State Financial Assistance Project</u>
40.012	Local Economic Development Initiatives

Dollar threshold used to distinguish between Type A and Type B projects: \$ 300,000

EMERGE AMERICAS, LLC

SCHEDULE OF FINDINGS AND
QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018

SECTION II - FINDINGS – AUDIT OF FINANCIAL STATEMENTS

None.

SECTION III - FINDINGS AND QUESTIONED COSTS – MAJOR STATE PROJECTS

None.

SECTION IV - PRIOR YEAR FINDINGS

A summary schedule of prior audit findings is not required because there were no prior audit findings.