

NEXTCORPS, INC. AND SUBSIDIARY

ROCHESTER, NEW YORK

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2024

(with Comparative Totals for 2023)



BUSINESS
ADVISORS
AND CPAS

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BUSINESS
ADVISORS
AND CPAS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
NextCorps, Inc. and Subsidiary

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of NextCorps, Inc. and Subsidiary, which comprise the consolidated statement of financial position of as of June 30, 2024, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of NextCorps, Inc. and Subsidiary as of June 30, 2024, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of NextCorps, Inc. and Subsidiary, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As discussed in Note A to the consolidated financial statements, during the year ended June 30, 2024, NextCorps, Inc. and Subsidiary adopted new accounting guidance related to accounting for credit losses. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about NextCorps, Inc. and Subsidiary's ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 NextCorps, Inc. and Subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about NextCorps, Inc. and Subsidiary's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited NextCorps, Inc. and Subsidiary's June 30, 2023 consolidated financial statements and we expressed an unmodified opinion on those audited consolidated financial statements in our report dated November 10, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2023 is consistent, in all material respects, with the consolidated financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2024 on our consideration of NextCorps, Inc. and Subsidiary'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 solely 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 effectiveness of 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 NextCorps, Inc. and Subsidiary's internal control over financial reporting and compliance.

Mengel, Metzger, Baw & Co. LLP

Rochester, New York
November 11, 2024

NEXTCORPS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2024

(With Comparative Totals for 2023)

<u>ASSETS</u>	<u>June 30,</u>	
	<u>2024</u>	<u>2023</u>
Cash and cash equivalents	\$ 6,230,599	\$ 6,296,854
U.S. Treasury Bills	3,266,878	1,976,285
Investments	17,961,543	15,257,173
Grants receivable	1,276,840	823,476
Accounts receivable, net of allowance for credit losses of \$27,498 in 2024 and \$20,000 in 2023	1,057,196	970,339
Prepaid expenses	21,792	14,287
Property and equipment, net	<u>9,937,682</u>	<u>10,391,825</u>
TOTAL ASSETS	<u>\$ 39,752,530</u>	<u>\$ 35,730,239</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
<u>LIABILITIES</u>		
Accounts payable	\$ 1,209,455	\$ 1,029,479
Accrued expenses	583,458	422,033
Security deposits	29,580	27,883
Deferred revenue	<u>5,534,409</u>	<u>4,168,477</u>
TOTAL LIABILITIES	7,356,902	5,647,872
 <u>NET ASSETS</u> , without donor restrictions	 <u>32,395,628</u>	 <u>30,082,367</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 39,752,530</u>	<u>\$ 35,730,239</u>

The accompanying notes are an integral part of the consolidated financial statements.

NEXTCORPS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2024
(With Comparative Totals for 2023)

	Year ended June 30,	
	2024	2023
Revenues and support:		
Grants - State	\$ 7,891,939	\$ 9,868,570
Grants - Federal	1,316,596	775,110
Grants - Other	736,131	265,000
Contributions	213,979	285,205
Contributions - gifts-in-kind	46,450	39,417
Project income	2,678,021	2,630,333
Sponsorship income	16,200	107,772
Rental income	369,824	350,853
Interest and dividend income	330,859	136,583
Unrealized gain on U.S. Treasury Bills	21,748	12,156
Realized loss on investments	-	(37,668)
Miscellaneous	73,808	56,189
TOTAL REVENUES AND SUPPORT	13,695,555	14,489,520
Expenses:		
Program services:		
Manufacturing services	3,548,326	4,093,593
New Venture services	6,837,492	7,139,123
	10,385,818	11,232,716
Supporting services:		
Management and general	846,476	778,332
TOTAL EXPENSES	11,232,294	12,011,048
CHANGE IN NET ASSETS BEFORE REVALUATION OF (IMPAIRMENT ON) INVESTMENTS	2,463,261	2,478,472
Revaluation of investments	-	240,000
Impairment on investments	(150,000)	(254,578)
CHANGE IN NET ASSETS	2,313,261	2,463,894
Net assets without donor restrictions at beginning of year	30,082,367	27,618,473
NET ASSETS WITHOUT DONOR RESTRICTIONS AT END OF YEAR	\$ 32,395,628	\$ 30,082,367

The accompanying notes are an integral part of the consolidated financial statements.

NEXTCORPS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2024
(With Comparative Totals for 2023)

	<u>Program Services</u>			Management and General	<u>Total</u>	
	<u>Manufacturing Services</u>	<u>New Venture Services</u>	<u>Total Program Services</u>		<u>Year ended June 30,</u>	
					<u>2024</u>	<u>2023</u>
Salaries	\$ 383,911	\$ 2,108,711	\$ 2,492,622	\$ 620,736	\$ 3,113,358	\$ 2,821,026
Employee benefits	<u>89,412</u>	<u>470,410</u>	<u>559,822</u>	<u>132,011</u>	<u>691,833</u>	<u>597,049</u>
TOTAL SALARIES AND RELATED EXPENSES	473,323	2,579,121	3,052,444	752,747	3,805,191	3,418,075
Consulting, contractual and other subcontracts	2,970,760	2,677,743	5,648,503	-	5,648,503	6,764,739
Property management	-	219,606	219,606	-	219,606	251,331
Seminars and special events	43	167,059	167,102	10,905	178,007	158,636
Travel	4,035	114,310	118,345	2,571	120,916	62,925
Stationery and supplies	88	17,804	17,892	2,466	20,358	15,718
Postage	334	7,378	7,712	74	7,786	6,201
Equipment purchases and maintenance	10,605	42,653	53,258	13,815	67,073	57,241
Marketing and advertising	3,354	371,444	374,798	13,319	388,117	471,783
Occupancy	38,479	-	38,479	7,285	45,764	46,130
Professional services	20,498	87,195	107,693	19,362	127,055	102,065
Telephone	2,452	20,346	22,798	3,611	26,409	27,173
Insurance	12,465	31,834	44,299	1,548	45,847	47,656
Credit loss expense (recovery)	5,435	2,463	7,898	-	7,898	(14,877)
Staff training and conferences	3,107	18,521	21,628	346	21,974	12,983
Miscellaneous	<u>3,348</u>	<u>14,490</u>	<u>17,838</u>	<u>6,495</u>	<u>24,333</u>	<u>26,536</u>
	3,075,003	3,792,846	6,867,849	81,797	6,949,646	8,036,240
Depreciation	-	465,525	465,525	11,932	477,457	556,733
TOTAL FUNCTIONAL EXPENSES	<u>\$ 3,548,326</u>	<u>\$ 6,837,492</u>	<u>\$ 10,385,818</u>	<u>\$ 846,476</u>	<u>\$ 11,232,294</u>	<u>\$ 12,011,048</u>

The accompanying notes are an integral part of the consolidated financial statements.

NEXTCORPS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2024
(With Comparative Totals for 2023)

	Year ended June 30,	
	2024	2023
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ 2,313,261	\$ 2,463,894
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	477,457	556,733
Credit loss expense (recovery)	7,898	(14,877)
Unrealized gain on U.S. Treasury Bills	(21,748)	(12,156)
Realized loss on investments	-	37,668
Revaluation of investments	-	(240,000)
Impairment on investments	150,000	254,578
Changes in certain assets and liabilities affecting operations:		
Grants receivable	(453,364)	127,852
Accounts receivable	(94,755)	(217,190)
Prepaid expenses	(7,505)	17,702
Accounts payable	179,976	253,665
Accrued expenses	161,425	(39,552)
Security deposits	1,697	252
Deferred revenue	1,365,932	(1,128,999)
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,080,274	2,059,570
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Purchases of property and equipment	(23,314)	-
Proceeds from the sale of U.S. Treasury Bills	1,008,000	5,050,000
Purchases of U.S. Treasury Bills	(2,276,845)	(2,980,745)
Proceeds from sale or redemption of investments	120,000	582,214
Purchases of investments	(2,974,370)	(3,588,193)
NET CASH USED FOR INVESTING ACTIVITIES	(4,146,529)	(936,724)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(66,255)	1,122,846
Cash and cash equivalents at beginning of year	6,296,854	5,174,008
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 6,230,599	\$ 6,296,854

NEXTCORPS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS, Cont'd

YEAR ENDED JUNE 30, 2024
(With Comparative Totals for 2023)

	<u>Year ended June 30,</u>	
	<u>2024</u>	<u>2023</u>
<u>NON-CASH INVESTING ACTIVITIES</u>		
Transfer of SAFE agreements to equity investments	<u>\$ 929,036</u>	<u>\$ 221,711</u>
Transfer of notes receivable, including accrued interest totaling \$77,801 and \$4,589 in 2024 and 2023, respectively, to equity investments	<u>\$ 977,801</u>	<u>\$ 279,589</u>
Transfer of notes receivable to SAFE agreements	<u>\$ 120,000</u>	<u>\$ 350,000</u>
Transfer of SAFE agreements to notes receivables	<u>\$ -</u>	<u>\$ 120,000</u>

The accompanying notes are an integral part of the consolidated financial statements.

NEXTCORPS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2024

(With Comparative Totals for 2023)

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Organization

NextCorps, Inc. (“NextCorps”), formerly High Tech Rochester Inc., was incorporated in 1987 as an independent, not-for-profit economic development organization. In 2007, NextCorps became a wholly-owned subsidiary of the University of Rochester, but maintains its independent Board of Directors whose members are drawn from the community in which it operates.

In November 2017, NextCorps formed a wholly-owned for profit subsidiary, Luminate Venture Challenge Corp. (“LVCC”), to hold the investments made by NextCorps in early-stage companies. LVCC has 200 common shares authorized with no par value that are issued and outstanding at June 30, 2024 and 2023. Collectively, NextCorps and LVCC are referred to as the “Organization”.

NextCorps’ mission is to be a catalyst for entrepreneurship and innovation-based economic development by applying business expertise and network connections to aid in the formation and profitable growth of companies in the Finger Lakes Region of New York. The Organization focuses on regional economic development in the technology and high growth business sector through training, consulting and connections to key resources. NextCorps provides a suite of services, including technology commercialization for very early stage opportunities, business incubation for high growth potential startups, and growth services for existing manufacturing companies seeking to improve their top and bottom line performance.

The Organization is supported by academic, private and public organizations, including major funding from Empire State Development, including its Division of Science, Technology and Innovation (“NYSTAR”) and the New York State Energy Research and Development Authority (“NYSERDA”). The Organization owns and operates one business incubator in downtown Rochester in Sibley Square. In addition to its incubation services, NextCorps is the Finger Lakes region’s Manufacturing Extension Partnership center, operates a clean-tech proof of concept center (Venture for ClimateTech), an optics, photonics, and imaging-focused accelerator (Luminate), and a pilot program designed to aid clean-tech manufacturing startups to move from the prototype stage to manufacturing scale production (Scale for ClimateTech). During the year ended June 30, 2024, the Organization began providing expertise and support to new startup accelerators through funding from the National Science Foundation (NSF).

Principles of consolidation

The consolidated financial statements present the consolidated statement of financial position and statements of activities and changes in net assets, functional expenses and cash flows of NextCorps and LVCC. All intercompany balances and transactions have been eliminated.

Basis of accounting

The Organization maintains its books and records on the accrual basis of accounting.

NEXTCORPS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2024

(With Comparative Totals for 2023)

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Financial statement presentation

The Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net Assets Without Donor Restrictions

Represents all resources over which the Board of Directors has discretionary control to use in carrying on the Organization's operations in accordance with guidelines established for the Organization. The Board may designate portions of the net assets without donor restrictions for specific purposes, projects or investment.

Net Assets With Donor Restrictions

Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. The Organization had no net assets with donor restrictions at June 30, 2024 and 2023.

Cash and cash equivalents

Cash and cash equivalents, including bank deposit accounts and certain money market accounts, are maintained at financial institutions located in Upstate New York and are insured by the FDIC up to \$250,000 at each institution. The Organization considers all highly liquid investments with a maturity of three months or less to be cash equivalents. In the normal course of business, the cash account balances at any given time may exceed insured limits. However, the Organization has not experienced any losses in such accounts and does not believe it is exposed to significant risk in cash and cash equivalents.

U.S. Treasury Bills

The Organization invests in U.S. Treasury Bills, which are stated at fair value based on quoted market prices. These securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain securities, it is at least reasonably possible that changes in the values of the U.S. Treasury Bills may occur in the near term and such changes could materially affect the amounts reported in the accompanying consolidated financial statements.

Investments

Investments are valued at its cost minus impairment and consist of equity interests, notes receivable, and simple agreements for future equity. Investments are written off through a charge to the valuation allowance and a credit to the applicable investment.

Grants and accounts receivable and allowance for credit losses

Management reviews grants and accounts receivable on a periodic basis to determine if any receivables will potentially be uncollectible and has established a valuation allowance by charging credit loss expense for estimated uncollectible account balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to the applicable accounts receivable. The allowance for credit losses at June 30, 2024 and 2023 was \$27,498 and \$20,000, respectively. There were write-offs of \$7,898 and recoveries of \$14,877 during the years ended June 30, 2024 and 2023, respectively.

NEXTCORPS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2024

(With Comparative Totals for 2023)

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Property and equipment

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method on a basis considered adequate to depreciate the assets over their estimated useful lives, which range primarily from two to forty years. Depreciation on tenant improvements is computed using the straight-line method on a basis considered adequate to depreciate the assets over the life of the leases, which range from two to three years.

Major renewals and betterments are capitalized while repairs and maintenance are charged to expenses as incurred. Upon sale or retirement, the related cost and accumulated depreciation are removed from the accounts and any related gain or loss is reflected in the consolidated statement of activities.

Marketing and advertising

Marketing and advertising costs are expensed as incurred, and amounted to approximately \$388,100 and \$471,800 for the years ended at June 30, 2024 and 2023, respectively.

Revenue and support recognition

Revenue from Exchange Transactions: The Organization recognizes revenue in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers, as amended. ASU 2014-09 applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition.

Project income

The Organization is a facilitator for customer projects, connecting customers with the appropriate third-party contractors to meet the project needs. Revenue is recognized at a point in time using the completed contract method. Contract costs include charges from subcontractors related to contract performance. Changes to total estimated contract cost or losses, if any, are recognized in the period in which they are determined as assessed at the contract level. Customer payments on contracts are typically due upon receipt of the invoice.

The following table summarizes contract balances at their respective statement of financial position dates:

	June 30,		
	2024	2023	2022
Contract assets:			
Accounts receivable (gross of allowance for credit losses)	\$ 325,794	\$ 478,180	\$ 408,564

Rental income

The Organization generates revenue from leasing office space. Such leasing revenues are recognized monthly as they are earned, which is not materially different than on a straight-line basis. Payments are received from the tenant for their share of the building space as defined by the rental agreement. Rental payments received in advance are deferred until earned. Deferred revenue relative to rental agreements amounted to \$13,909 and \$12,918 at June 30, 2024 and 2023, respectively. Office space is rented under various lease terms. See Note H.

NEXTCORPS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2024

(With Comparative Totals for 2023)

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Grant revenue

Some of the Organization's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Certain grants are subject to audit and retroactive adjustments by its funders. Any changes resulting from these audits are recognized in the year they become known. Qualifying expenditures that have been incurred but are yet to be reimbursed are reported as grants receivable in the accompanying statement of financial position and amounted to \$1,276,840 and \$823,476 at June 30, 2024 and 2023, respectively. Amounts received prior to incurring qualifying expenditures are reported as deferred revenue in the accompanying consolidated statement of financial position and amounted to \$5,520,499 and \$4,126,259 at June 30, 2024 and 2023, respectively. See Note F.

Contributions

The Organization records contributions when a donor makes an unconditional promise to give to the Organization. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities and changes in net assets as net assets released from restrictions.

Contributions – gifts-in-kind

Gifts and donations other than cash are recorded at fair market value at the date of contribution. In-kind donations amounted to \$46,450 and \$39,417 during the years ended June 30, 2024 and 2023, respectively. See Note N.

Income taxes

NextCorps is organized as a non-profit corporation and is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state regulations. NextCorps has filed for and received income tax exemptions in the various jurisdictions where they are required to do so. NextCorps files Form 990 tax returns in the U.S. federal jurisdiction and in New York State.

LVCC is organized as a C-Corporation for income tax purposes and is taxed under the provisions of the Internal Revenue Code and applicable state laws. LVCC files tax returns in various jurisdictions and is subject to potential examination by taxing authorities.

The Organization's current and prior three years tax returns remain subject to review by taxing authorities. Management of the Organization believes it has no material uncertain tax positions and, accordingly, it has not recognized any liability for unrecognized tax benefits.

NEXTCORPS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2024

(With Comparative Totals for 2023)

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Use of estimates in the preparation of consolidated financial statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (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 revenue, support and expenses during the reporting period. Actual results could differ from those estimates.

Comparative information for the year ended June 30, 2023

The consolidated financial statements include certain prior year summarized comparative information in total but not by functional classification. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended June 30, 2023, from which the summarized information was derived.

Adoption of new accounting standard - credit losses

In June 2016, the FASB issued guidance (FASB ASC 326) which significantly changed how entities will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through changes in net assets. The most significant change in this standard is a shift from incurred loss model to the expected loss model. Under the standard, disclosures are required to provide users of the consolidated financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses. Financial assets held by the Organization that are subject to the guidance in FASB ASC 326 were certain grants and accounts receivable.

The Organization adopted the standard effective July 1, 2023. The impact of adoption was not considered material to the consolidated financial statements and primarily resulted in enhanced disclosures only.

Subsequent events

The Organization has conducted an evaluation of potential subsequent events occurring after the consolidated statement of financial position date through November 11, 2024, which is the date the consolidated financial statements are available to be issued. See Notes E and I.

NOTE B: LIQUIDITY AND AVAILABILITY

The Organization strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures. Financial assets in excess of daily cash requirements are invested in savings accounts, money market funds and other minimal risk short-term investments.

The following table reflects the Organization's financial assets available within one year as of June 30, 2024 and 2023, reduced by amounts that are not available to management to meet general expenditures within one year of the consolidated statement of financial position date because of board designations. Amounts not available include a board designated Capital Reserve. In the event the need arises to utilize the board-designated funds for liquidity purposes, the reserves could be drawn upon through board resolution. Amounts not available to meet general expenditures within one year also may include net assets with donor restrictions. There were no net assets with donor restrictions at June 30, 2024 and 2023.

NEXTCORPS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2024

(With Comparative Totals for 2023)

NOTE B: LIQUIDITY AND AVAILABILITY, Cont'd

The Organization also has a \$350,000 line of credit that they could draw upon in the event of unanticipated liquidity needs. At June 30, 2024 and 2023, there was no outstanding balance on this line.

	<u>June 30,</u>	
	<u>2024</u>	<u>2023</u>
Cash and cash equivalents	\$ 6,230,599	\$ 6,296,854
Grants receivable	1,276,840	823,476
Accounts receivable, net	<u>1,057,196</u>	<u>970,339</u>
Total financial assets available within one year	8,564,635	8,090,669
Less:		
Amounts unavailable to management without Board's approval:		
Board designated for Capital Reserve	<u>(450,000)</u>	<u>(450,000)</u>
Total amounts unavailable to management without Board's approval	<u>(450,000)</u>	<u>(450,000)</u>
Total financial assets available to management for general expenditures within one year	<u>\$ 8,114,635</u>	<u>\$ 7,640,669</u>

NOTE C: FAIR VALUE MEASUREMENTS

The Organization measures its investments at fair value on a recurring basis. U.S. GAAP establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under U.S. GAAP are as follows:

- Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2 – Inputs to the valuation methodology include significant other observable inputs other than level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

NEXTCORPS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2024

(With Comparative Totals for 2023)

NOTE C: FAIR VALUE MEASUREMENTS, Cont'd

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. Any methods described could produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no changes in the methodologies used at June 30, 2024 or 2023.

U.S. Treasury Bills: Valued at the closing price reported on the active market on which the U.S. Treasury Bills are traded.

At June 30, 2024 and 2023, the U.S. Treasury Bills were level 2 investments with a fair value of \$3,266,878 and \$1,976,285, respectively. The maturity dates were July 2024.

NOTE D: INVESTMENTS

Investments consist of the following:

	<u>June 30,</u>	
	<u>2024</u>	<u>2023</u>
Equity investments	\$ 12,711,121	\$ 9,499,741
Notes receivable	1,515,000	1,972,010
Simple agreements for future equity (SAFE)	<u>4,260,000</u>	<u>4,160,000</u>
	18,486,121	15,631,751
Reserve for impaired investments	<u>(524,578)</u>	<u>(374,578)</u>
	<u>\$ 17,961,543</u>	<u>\$ 15,257,173</u>

Equity investments are investments in companies that the Organization receives in exchange for services provided to that company and those that have been acquired through the use of program funding if specifically authorized by the funding agency. The equity investments include investments in preferred stock of twenty-nine companies at June 30, 2024 and nineteen companies at June 30, 2023 that total \$12,069,646 and \$8,958,266 at June 30, 2024 and 2023, respectively. Certain of the preferred stock investments include conversion options and liquidation preferences.

Notes receivable are convertible promissory notes from unrelated parties and vary in amount, bearing fixed interest ranging from 7% to 9% per annum and have maturity dates through February 2027.

NEXTCORPS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2024

(With Comparative Totals for 2023)

NOTE D: INVESTMENTS, Cont'd

Simple agreements for future equity are with unrelated parties and define the Organization's rights to equity securities of the investees when certain events occur in the future.

All investments are recorded at cost, representative of either the value of the services delivered or the cash paid. Investments are valued annually for any impairment, and if determined to be impaired, the investments are written down accordingly. If circumstances surrounding the investment change, the Organization will revalue the investment back to original cost. At June 30, 2024, management has determined that two investments totaling \$150,000 were impaired due to the financial performance of the companies and no investments that were revalued back to cost. At June 30, 2023, management determined that two investments totaling \$254,578 were impaired due to the financial performance of the companies and one investment totaling \$240,000 was revalued back to cost.

NOTE E: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	June 30,	
	<u>2024</u>	<u>2023</u>
Buildings and building improvements	\$ 12,266,016	\$ 12,266,016
Equipment	1,447,382	1,428,725
Construction in progress	<u>4,658</u>	<u>-</u>
	13,718,056	13,694,741
Less accumulated depreciation	<u>3,780,374</u>	<u>3,302,916</u>
	<u>\$ 9,937,682</u>	<u>\$ 10,391,825</u>

In September 2024, the Organization entered into a purchase agreement to acquire additional space within the Sibley Building for \$2,000,000. Construction in process relates to professional fees incurred related to entering the agreement. Construction in progress is stated at cost. No provision for depreciation is made on construction in progress until such time as the relevant assets are complete and put into use. Construction is expected to be completed by the fiscal year ending June 30, 2026.

NEXTCORPS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2024

(With Comparative Totals for 2023)

NOTE F: GRANTS AND CONCENTRATIONS

The Organization receives grant income from various New York State agencies which fund various programs. Grant contracts are renewed periodically based upon an approved budget.

The Organization had four reimbursement contracts during both fiscal 2024 and fiscal 2023 with NYSTAR. The total grant income recorded by the Organization, representing actual and anticipated reimbursement of costs incurred under the manufacturing program, for Manufacturing Extension Partnership (MEP) and the Technology Development Organization (TDO) amounted to approximately \$890,000 and \$1,579,000 for the years ended June 30, 2024 and 2023, respectively. The Hot Spot contract for the purpose of supporting incubation amounted to approximately \$275,000 and \$266,000 for the years ended June 30, 2024 and 2023, respectively.

The Organization has two reimbursement contracts with NYSERDA for the purpose of supporting clean energy startup companies. These contracts amounted to approximately \$2,664,000 and \$3,693,000 for the years ended June 30, 2024 and 2023, respectively.

The Organization has two reimbursement contracts with Empire State Development for the purpose of developing and funding the photonics accelerator through 2024. These contracts amounted to approximately \$4,622,000 and \$4,891,000 for the years ended June 30, 2024 and 2023, respectively.

The Organization has two reimbursement contracts with the NSF for the purpose of transferring knowledge and experience from an existing startup accelerator to a newly formed accelerator in a different region with a different technology focus. The estimated end date is December 2025. These contracts amounted to approximately \$739,000 for the year ended June 30, 2024. There were no such contracts for the year ended June 30, 2023.

The Organization had one reimbursement contract with the U.S. Department of Commerce for the purpose of developing and funding the software startup accelerator for non-technical founders through October 2022. This contract amounted to approximately \$215,000 for the year ended June 30, 2023.

Other grants and reimbursement contracts amounting to approximately \$736,000 and \$265,000 were received for the years ended June 30, 2024 and 2023, respectively.

For the years ended June 30, 2024 and 2023, revenue from the following grants accounted for more than 10% of total revenues and support:

	<u>Year ended June 30,</u>	
	<u>2024</u>	<u>2023</u>
NYSERDA	19%	26%
Empire State Development (ESD)	34%	34%
NYSTAR	*	13%

* less than 10% of total revenues and support

NEXTCORPS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2024

(With Comparative Totals for 2023)

NOTE F: GRANTS AND CONCENTRATIONS, Cont'd

At June 30, 2024, receivables from NYSERDA accounted for 26% of grants receivable. There were no amounts outstanding from ESD at June 30, 2024.

At June 30, 2023, receivables from NYSERDA and NYSTAR accounted for 39% and 58% of grants receivable, respectively. There were no amounts outstanding from ESD at June 30, 2023.

NOTE G: LINE OF CREDIT

The Organization has a revolving line of credit, in the aggregate amount of \$350,000. The interest rate is prime plus 0.81% (an effective rate of 9.31% at June 30, 2024). There were no outstanding borrowings at June 30, 2024 or 2023.

NOTE H: LEASING ARRANGEMENTS

During the years ended June 30, 2024 and 2023, the Organization leased office space to tenants at the Sibley Building with lease terms of various lengths. The approximate future minimum rental income under the Sibley Building leases, excluding charges for utilities and services, is summarized as follows:

Year ending June 30,

2025	\$ 224,000
2026	<u>5,000</u>
	<u>\$ 229,000</u>

NOTE I: COMMITMENTS

During September 2023, the Organization selected recipients for \$2,050,000 of new equity investments which are expected to be received and invested during fiscal 2024.

During September 2024, the Organization selected recipients for \$2,000,000 of new equity investments which are expected to be received and invested during fiscal 2025.

NOTE J: 401(k) PLAN

The Organization contracted with Alcott Group which assumed all employees of the Organization and, in turn, are leased back to the Organization. The leased employees are covered by the Alcott Group 401(k) Plan (the "Plan"), and the Plan provides for tax deferred employee contributions. Employer contributions to the Plan were discretionary and determined annually by the Board of Directors. The Organization has a matching program which requires the Organization to make a matching contribution of 100% of participants' contributions to the Plan, up to 4% of the participants' eligible compensation. Matching contributions were \$105,564 and \$100,979 for the years ended June 30, 2024 and 2023, respectively.

NEXTCORPS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2024

(With Comparative Totals for 2023)

NOTE K: NET ASSETS

Net assets without donor restrictions are as follows:

	<u>June 30,</u>	
	<u>2024</u>	<u>2023</u>
Undesignated	\$ 22,007,946	\$ 19,240,542
Designated for capital reserve	450,000	450,000
Invested in property and equipment	<u>9,937,682</u>	<u>10,391,825</u>
	<u>\$ 32,395,628</u>	<u>\$ 30,082,367</u>

NOTE L: FUNCTIONAL EXPENSES

The consolidated financial statements report certain categories of expenses that are attributed to one or more program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. All expenses that are allocated to more than one program or supporting function are allocated on the basis of estimates of time and effort or square footage.

NOTE M: MANAGEMENT AGREEMENT

Effective January 1, 2018, NextCorps and LVCC entered into a management agreement that calls for NextCorps to manage the capital investments made by LVCC in early-stage, high-growth companies. The fee for these services shall be 2% of NextCorps' average invested capital to be calculated and paid quarterly, not to exceed \$150,000 annually. In September 2021, the management fee was suspended for the year ended June 30, 2022, but was reinstated during the year ended June 30, 2023 only for certain investments. During the years ended June 30, 2024 and 2023, the total management fees were approximately \$119,000 and \$117,000, respectively. Amounts were eliminated in consolidation.

NEXTCORPS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2024

(With Comparative Totals for 2023)

NOTE N: CONTRIBUTIONS – GIFTS-IN-KIND

The following table outlines the breakout of the different types of gifts-in-kind recognized and the program that benefited from the gift-in kind contributions. The Organization received donated services that included time from a program partner for various consulting projects for companies within the program. These consulting services are valued at the estimated fair value based on current rates for similar consultants. There were \$46,450 and \$39,417 worth of gifts-in-kind received during the years ended June 30, 2024 and 2023, respectively.

<u>Program or Supporting Service</u>	<u>Donated services</u>
<u>Year end June 30, 2024</u>	
New Venture Services	\$ 46,450
<u>Year end June 30, 2023</u>	
New Venture Services	\$ 39,417

NEXTCORPS, INC. AND SUBSIDIARY

ROCHESTER, NEW YORK

**SCHEDULES REQUIRED BY GOVERNMENT
AUDITING STANDARDS AND THE UNIFORM
GUIDANCE**

AND

INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2024



BUSINESS
ADVISORS
AND CPAS

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BUSINESS
ADVISORS
AND CPAS

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*

Board of Directors
NextCorps, Inc. and Subsidiary

We have audited 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, the consolidated financial statements of NextCorps, Inc. and Subsidiary, which comprise the consolidated statement of financial position as of June 30, 2024 and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended and the related notes to the consolidated financial statements and have issued our report thereon dated November 11, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered NextCorps, Inc. and Subsidiary’s internal control over financial reporting (internal control) as a basis for designing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of NextCorps, Inc. and Subsidiary’s internal control. Accordingly, we do not express an opinion on the effectiveness of NextCorps, Inc. and Subsidiary’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.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether NextCorps, Inc. and Subsidiary's consolidated 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 consolidated financial statements. 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mengel, Metzger, Barw & Co. LLP

Rochester, New York
November 11, 2024



BUSINESS
ADVISORS
AND CPAS

INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS IN ACCORDANCE WITH THE UNIFORM GUIDANCE

Board of Directors
NextCorps, Inc. and Subsidiary

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited NextCorps, Inc. and Subsidiary’s compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on NextCorps, Inc. and Subsidiary’s major federal program for the year ended June 30, 2024. NextCorps, Inc. and Subsidiary’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

In our opinion, NextCorps, Inc. and Subsidiary complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2024.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of NextCorps, Inc. and Subsidiary and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of NextCorps, Inc. and Subsidiary’s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to NextCorps, Inc. and Subsidiary's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on NextCorps, Inc. and Subsidiary's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about NextCorps, Inc. and Subsidiary's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding NextCorps, Inc. and Subsidiary's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of NextCorps, Inc. and Subsidiary's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of NextCorps, Inc. and Subsidiary's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

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 federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a 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 federal program 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 federal program 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the consolidated financial statements of NextCorps, Inc. and Subsidiary as of and for the year ended June 30, 2024, and have issued our report thereon dated November 11, 2024, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Mengel, Metzger, Baw & Co. LLP

Rochester, New York
November 11, 2024

NEXTCORPS, INC. AND SUBSIDIARY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2024

	<u>Federal AL Number</u>	<u>Pass-through Grantor's Number</u>	<u>Total Federal Expenditures</u>	<u>Passed Through to Subrecipients</u>
U.S. Department of Commerce:				
<u>Pass Through Empire State Development's Division of Science, Technology, & Innovation:</u>				
Manufacturing Extension Partnership Program	11.611	C210091	\$ 560,000	\$ -
Manufacturing Extension Partnership Program	11.611	C200069	<u>39,986</u>	<u>-</u>
TOTAL U.S. DEPARTMENT OF COMMERCE			599,986	-
National Science Foundation:				
<i>Research & Development Cluster</i>				
Technology, Innovation, and Partnerships Program	47.084		739,041	471,810
<u>Pass Through Univeristy of Rochester</u>				
Technology, Innovation, and Partnerships Program	47.084	GR534152	<u>17,555</u>	<u>-</u>
TOTAL NATIONAL SCIENCE FOUNDATION			756,596	471,810
TOTAL ALL PROGRAMS			<u>\$ 1,356,582</u>	<u>\$ 471,810</u>

NOTE A: BASIS OF PRESENTATION

The above schedule of expenditures of federal awards includes the federal grant activity of NextCorps, Inc. and Subsidiary and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic consolidated financial statements.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NextCorps, Inc. and Subsidiary has elected not to use the 10 percent de minimus indirect cost rate allowed under the Uniform Guidance.

NEXTCORPS, INC. AND SUBSIDIARY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2024

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified		
Internal control over financial reporting:			
• Material weakness(es) identified?	_____	yes	_____ <u>x</u> _____ no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	_____	yes	_____ <u>x</u> _____ none reported
Noncompliance material to financial statements noted?	_____	yes	_____ <u>x</u> _____ no

Federal Awards

Internal control over major programs:			
• Material weakness(es) identified?	_____	yes	_____ <u>x</u> _____ no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	_____	yes	_____ <u>x</u> _____ none reported
Type of auditor's report issued on compliance for major programs:	Unmodified		
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	_____	yes	_____ <u>x</u> _____ no

Identification of major program:

AL Number:

47.084

Name of Federal Program or Cluster:

National Science Foundation

Dollar threshold used to distinguish between type A and type B programs:

_____ \$750,000 _____

Auditee qualified as low-risk auditee?

_____ x _____ yes _____ no

NEXTCORPS, INC. AND SUBSIDIARY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Cont'd

YEAR ENDED JUNE 30, 2024

FINDINGS – FINANCIAL STATEMENT AUDIT

None.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

None.