



INNOVATION WORKS, INC. AND SUBSIDIARIES

AUDITED CONSOLIDATED  
FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION

Years ended June 30, 2023 and 2022

310 GRANT STREET, STE 2100  
PITTSBURGH, PA 15219

SISTERSON.COM

PHONE: 412.281.2025

INNOVATION WORKS, INC. AND SUBSIDIARIES

INDEX

	<u>Page number</u>
Independent Auditor's Report .....	2-4
Audited Consolidated Financial Statements as of and for the Years Ended June 30, 2023 and 2022	
Consolidated Statements of Financial Position .....	5-6
Consolidated Statements of Activities .....	7-8
Consolidated Statements of Changes in Net Assets .....	9
Consolidated Statements of Functional Expenses .....	10-11
Consolidated Statements of Cash Flows .....	12-13
Notes to Consolidated Financial Statements .....	14-33
Supplemental Information as of and for Periods Ended June 30, 2023	
Statement of Activities DCED Challenge Contract #C000055338 .....	35
Statement of Activities DCED Innovate in PA Contract #C000061843 .....	36
Statement of Activities DCED Challenge Contract #C000074232 .....	37
Statement of Activities DCED Challenge Contract #C000080271 .....	38
Statement of Activities DCED Challenge Contract #C000083351 .....	39
Reconciliation of Commonwealth Program Funds Expended and Related Matching Contributions Challenge Contract #C000074232 .....	40
Reconciliation of Commonwealth Program Funds Expended and Related Matching Contributions Challenge Contract #C000080271 .....	41
Reconciliation of Commonwealth Program Funds Expended and Related Matching Contributions Challenge Contract #C000083351 .....	42
Consolidating Statements of Financial Position .....	43-44
Supplemental Information Required in Accordance with Uniform Guidance as of and for the Year Ended June 30, 2023	
Schedule of Expenditures of Federal Awards .....	46
Notes to Schedule of Expenditures of Federal Awards .....	47
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 <i>Government Auditing Standards</i> .....	48-49
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance .....	50-52
Schedule of Findings and Questioned Costs .....	53

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Innovation Works, Inc.

Report on the Audit of the Consolidated Financial Statements

### *Opinion*

We have audited the accompanying consolidated financial statements of Innovation Works, Inc. (“IW”) (a nonprofit organization) and Subsidiaries, which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, and the related consolidated statements of activities, changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of IW and Subsidiaries as of June 30, 2023 and 2022, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### *Basis for Opinion*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (“U.S. 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 Consolidated Financial Statements* section of our report. We are required to be independent of IW and Subsidiaries and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions. The financial statements of IW’s wholly-owned subsidiaries, IW Management Company, LLC, which includes the consolidation of IW Management Company, LLC’s controlling interest in Riverfront Ventures, LLC and IW Management Company II, LLC, which includes the consolidation of IW Management Company II, LLC’s controlling interest in Riverfront Ventures II, LLC, were not audited in accordance with *Government Auditing Standards*.

### *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.

## INDEPENDENT AUDITOR'S REPORT

(continued)

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 IW and Subsidiaries' ability to continue as a going concern within 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 U.S. GAAS and *Government Auditing Standards* 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 U.S. GAAS and *Government Auditing Standards*, 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 IW and Subsidiaries' 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 IW and Subsidiaries' 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.

INDEPENDENT AUDITOR'S REPORT

(continued)

*Supplemental Information*

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying statements of activities and reconciliations of Commonwealth program funds expended and related matching contributions, and the consolidating statements of financial position as of and for the years ended June 30, 2023 and 2022, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis 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 audits 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 U.S. GAAS. In our opinion, the supplemental information is fairly stated, in all material respects, in relation to the consolidated 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 November 28, 2023 on our consideration of IW's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering IW's internal control over financial reporting and compliance.

*Sisterson & Co. LLP*

November 28, 2023

INNOVATION WORKS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30,	
	2023	2022
<u>ASSETS</u>		
Cash and equivalents	\$ 18,235,708	\$ 20,904,368
Receivables (Note 2)	627,354	218,682
Escrow receivable (Note 4)	411,256	835,711
Total receivables	1,038,610	1,054,393
Investments (Notes 2 and 3)	24,240,218	22,073,832
Riverfront Ventures, LLC investments in public securities (Note 2)	163,524	1,433,646
Investments in portfolio companies (Note 4)		
Riverfront Ventures, LLC	6,158,437	5,870,595
Riverfront Ventures II, LLC	371,025	172,998
IW Management Company, LLC	485,084	743,262
Property and equipment, net (Note 6)	65,991	96,921
Operating lease right-of-use assets (Note 7)	1,092,692	--
Other assets	203,981	135,550
Total assets	\$ 52,055,270	\$ 52,485,565

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

INNOVATION WORKS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(continued)

	June 30,	
	<u>2023</u>	<u>2022</u>
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities		
Accounts payable	\$ 664,293	\$ 274,279
Deferred revenue		
Committed for Riverfront Ventures, LLC (Note 1)	975,118	1,465,420
Pennsylvania State Small Business Credit Initiative unallocated funds (Note 5)	2,776,405	--
Other unallocated funds	634,687	--
Allocated disbursements to fund recipients	50,000	170,928
Loans payable to BFTDA (Note 2)	1,080,587	1,471,379
Operating lease liabilities (Note 7)	1,157,161	--
Other accrued liabilities	<u>1,491,606</u>	<u>1,237,268</u>
Total liabilities	<u>8,829,857</u>	<u>4,619,274</u>
Net assets (Note 2)		
Without donor restrictions		
Controlling interests - undesignated	5,170,870	7,262,200
Controlling interests - Board designated	35,325,056	37,695,858
Noncontrolling interests in Riverfront Ventures, LLC	<u>2,208,842</u>	<u>2,497,804</u>
Total net assets without donor restrictions	42,704,768	47,455,862
With donor restrictions	<u>520,645</u>	<u>410,429</u>
Total net assets	<u>43,225,413</u>	<u>47,866,291</u>
Total liabilities and net assets	<u>\$ 52,055,270</u>	<u>\$ 52,485,565</u>

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

INNOVATION WORKS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES

	Year ended June 30,	
	<u>2023</u>	<u>2022</u>
Without donor restrictions		
Revenue		
Grants:		
Department of Community and Economic Development	\$ 4,227,178	\$ 3,373,628
Private foundations	490,302	537,432
Federal	890,668	332,401
Pennsylvania State Small Business Credit Initiative sub-allocation revenue (Note 5)	3,117,382	--
Allegheny Health Network collaborative agreement revenue (Note 9)	728,263	630,718
Corporate income	35,000	--
Royalties, loan repayments, equity returns, and interest income from fund recipients	2,024,660	18,000,352
Interest and other income	1,493,483	534,097
Net realized and unrealized loss on investments in Riverfront Ventures, LLC portfolio companies (Note 4)	(258,094)	(157,357)
Net unrealized loss on Riverfront Ventures, LLC investments in public securities	(1,182,804)	--
Net unrealized loss on investments in Riverfront Ventures II, LLC portfolio companies (Note 4)	(51,973)	--
Net loss on investments	(719,325)	(1,873,464)
Other loss (Note 4)	(355,473)	--
Net assets released from donor restrictions	<u>622,284</u>	<u>637,006</u>
Total revenue	<u>11,061,551</u>	<u>22,014,813</u>

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

INNOVATION WORKS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES

(continued)

	Year ended June 30,	
	<u>2023</u>	<u>2022</u>
Expenses		
Program services		
Company investments	6,679,490	4,353,737
Business services	1,797,664	1,658,981
Technology infrastructure	4,711,065	3,267,382
Supporting services		
General and administrative	2,935,223	1,947,830
Fundraising	43,105	6,392
	<u>16,166,547</u>	<u>11,234,322</u>
Increase (decrease) in consolidated net assets without donor restrictions	(5,104,996)	10,780,491
Decrease in consolidated net assets without donor restrictions attributable to the noncontrolling interest in Riverfront Ventures, LLC	<u>(642,864)</u>	<u>(117,930)</u>
Increase (decrease) in consolidated net assets without donor restrictions attributable to controlling interests	<u>(4,462,132)</u>	<u>10,898,421</u>
With donor restrictions		
Grants:		
Private foundations	732,500	920,000
Federal	--	50,000
Charitable contribution	--	1,000
Net assets released from donor restrictions	<u>(622,284)</u>	<u>(637,006)</u>
Increase in consolidated net assets with donor restrictions	<u>110,216</u>	<u>333,994</u>
Increase (decrease) in consolidated net assets attributable to controlling interests	<u>\$ (4,351,916)</u>	<u>\$ 11,232,415</u>

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

INNOVATION WORKS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

	<u>Controlling interests</u>	<u>Noncontrolling interests</u>	<u>Total</u>
Consolidated net assets at July 1, 2021	\$ 34,136,072	\$ 2,919,102	\$ 37,055,174
Increase (decrease) in consolidated net assets	11,232,415	(117,930)	11,114,485
Capital contributions in Riverfront Ventures, LLC	--	376,345	376,345
Capital distributions by Riverfront Ventures, LLC	<u>--</u>	<u>(679,713)</u>	<u>(679,713)</u>
Consolidated net assets at June 30, 2022	45,368,487	2,497,804	47,866,291
Decrease in consolidated net assets	(4,351,916)	(642,864)	(4,994,780)
Capital contributions in Riverfront Ventures, LLC	<u>--</u>	<u>353,902</u>	<u>353,902</u>
Consolidated net assets at June 30, 2023	<u>\$ 41,016,571</u>	<u>\$ 2,208,842</u>	<u>\$ 43,225,413</u>

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

INNOVATION WORKS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2023

	Program services			Supporting services		Total
	Company investments	Business services	Technology infrastructure	General and administrative	Fundraising	
Disbursements to fund recipients	\$ 5,637,560	\$ --	\$ 1,150,000	\$ --	\$ --	\$ 6,787,560
Salaries and benefits	652,942	1,635,657	2,217,428	1,824,676	39,292	6,369,995
Professional services	250,689	38,061	316,688	827,985	--	1,433,423
Rent	31,142	54,448	476,383	58,098	1,861	621,932
Marketing	11,980	5,571	197,905	13,073	--	228,529
Statewide expenses	--	--	142,653	--	--	142,653
Purchased equipment	26,969	30,905	48,901	33,379	1,168	141,322
Miscellaneous	54,295	--	24,136	42,169	--	120,600
Subcontracted expense	8,950	16,450	24,562	67,053	570	117,585
Internal operations	2,512	4,239	35,371	10,348	152	52,622
Travel	387	3,102	24,919	10,771	--	39,179
Equipment lease and maintenance	912	1,762	25,511	1,879	62	30,126
Depreciation and amortization	--	--	3,550	25,798	--	29,348
Professional development	539	5,230	8,237	13,416	--	27,422
Subscriptions and memberships	613	2,239	14,821	6,578	--	24,251
	<u>\$ 6,679,490</u>	<u>\$ 1,797,664</u>	<u>\$ 4,711,065</u>	<u>\$ 2,935,223</u>	<u>\$ 43,105</u>	<u>\$ 16,166,547</u>

The accompanying notes are an integral part of this consolidated financial statement.

INNOVATION WORKS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2022

	Program services			Supporting services		Total
	Company investments	Business services	Technology infrastructure	General and administrative	Fundraising	
Salaries and benefits	\$ 707,080	\$ 1,562,133	\$ 1,711,159	\$ 1,238,532	\$ 5,726	\$ 5,224,630
Disbursements to fund recipients	3,231,726	--	650,000	--	--	3,881,726
Professional services	329,644	2,312	158,074	352,448	--	842,478
Rent	7,640	16,024	357,212	165,563	125	546,564
Purchased equipment	15,479	36,080	58,813	34,792	342	145,506
Statewide expenses	--	--	124,574	--	--	124,574
Subcontracted expense	7,018	18,500	25,274	69,050	140	119,982
Miscellaneous	45,476	--	17,251	36,137	--	98,864
Marketing	--	636	72,522	1,967	--	75,125
Equipment lease and maintenance	856	2,259	34,659	2,125	15	39,914
Internal operations	2,158	5,336	21,485	8,108	44	37,131
Depreciation and amortization	--	--	6,086	25,354	--	31,440
Travel	4,875	1,447	14,396	2,354	--	23,072
Professional development	822	12,765	3,002	5,234	--	21,823
Subscriptions and memberships	963	1,489	12,875	6,166	--	21,493
	<u>\$ 4,353,737</u>	<u>\$ 1,658,981</u>	<u>\$ 3,267,382</u>	<u>\$ 1,947,830</u>	<u>\$ 6,392</u>	<u>\$ 11,234,322</u>

The accompanying notes are an integral part of this consolidated financial statement.

INNOVATION WORKS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended June 30,	
	<u>2023</u>	<u>2022</u>
Cash flows from operating activities		
Increase (decrease) in consolidated net assets	\$ (4,994,780)	\$ 11,114,485
Adjustments to reconcile increase (decrease) in consolidated net assets to net cash provided by operating activities		
Depreciation and amortization of property and equipment	29,348	31,440
Amortization of operating lease right-of-use assets	545,560	--
Loss on disposal of property and equipment	1,582	187
Net loss on investments, gross of investment fees	657,310	1,806,387
Net unrealized loss in Riverfront Ventures, LLC investments in public securities	1,182,804	--
Net realized and unrealized loss on investments in Riverfront Ventures, LLC portfolio companies	258,094	157,357
Other loss	355,473	--
Net unrealized loss on investments in Riverfront Ventures II, LLC portfolio companies	51,973	--
Return from fund recipient received in the form of corporate equity	--	(714,868)
Increase (decrease) in cash from changes in		
Receivables	(408,672)	164,019
Escrow receivable	42,739	(375,808)
Other assets	(68,431)	(10,335)
Accounts payable	390,014	103,355
Deferred revenue	2,799,862	(411,060)
Operating lease liabilities	(561,711)	--
Other accrued liabilities	334,958	253,674
	<u>616,123</u>	<u>12,118,833</u>
Net cash provided by operating activities		
Cash flows from investing activities		
Purchases of investments in Riverfront Ventures, LLC portfolio companies	(564,989)	(1,165,000)
Disposals of investments in Riverfront Ventures, LLC portfolio companies	--	2,609,866
Purchases of investments in Riverfront Ventures, LLC II portfolio companies	(250,000)	(172,998)
Purchases of non-portfolio investments	(18,746,725)	(11,363,609)
Proceeds from sale of non-portfolio investments	15,923,029	5,217,790
	<u>(3,638,685)</u>	<u>(4,873,951)</u>
Net cash used in investing activities		

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

INNOVATION WORKS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(continued)

	Year ended June 30,	
	<u>2023</u>	<u>2022</u>
Cash flows from financing activities		
Repayments on loan payable to BFTDA	--	(140,214)
Capital contributions in Riverfront Ventures, LLC	353,902	376,345
Capital distributions from Riverfront Ventures, LLC	<u>--</u>	<u>(679,713)</u>
Net cash provided by (used in) financing activities	<u>353,902</u>	<u>(443,582)</u>
Net increase (decrease) in cash and equivalents	(2,668,660)	6,801,300
Cash and equivalents, beginning of year	<u>20,904,368</u>	<u>14,103,068</u>
Cash and equivalents, end of year	<u>\$ 18,235,708</u>	<u>\$ 20,904,368</u>
Supplemental disclosure of noncash investing and financing activities:		
Decrease in investments in Riverfront Ventures, LLC portfolio companies and loan payable to BFTDA for net unrealized loss inuring to the benefit of BFTDA (Note 4)	\$ <u>19,053</u>	\$ <u>24,326</u>
Decrease in Riverfront Ventures, LLC investments in public securities and loan payable to BFTDA for unrealized loss inuring to the benefit of BFTDA (Note 4)	\$ <u>87,318</u>	\$ <u>--</u>
Decrease in escrow receivable and loan payable to BFTDA for other loss inuring to the benefit of BFTDA (Note 4)	\$ <u>26,243</u>	\$ <u>--</u>
Decrease in investments in IW Management Company, LLC portfolio companies and loan payable to BFTDA for net realized and unrealized loss inuring to the benefit of BFTDA (Note 4)	\$ <u>258,178</u>	\$ <u>56,738</u>
Conversion of Riverfront Ventures, LLC investments in portfolio companies to Riverfront Ventures, LLC investments in public securities	\$ <u>--</u>	\$ <u>1,433,646</u>

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

INNOVATION WORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION

The consolidated financial statements of Innovation Works, Inc. and Subsidiaries include the accounts of Innovation Works, Inc. ("IW") and its wholly owned subsidiaries, IW Management Company, LLC ("IWMC") and IW Management Company II, LLC ("IWMC II"). IWMC is the managing member of a venture capital fund, Riverfront Ventures, LLC ("RFV") and IWMC II is the managing member of a venture capital fund, Riverfront Ventures II, LLC ("RFV II"). IWMC and IWMC II maintain control over RFV and RFV II, respectively, and as such, the financial statements of IWMC include the consolidation of RFV and the financial statements IWMC II include the consolidation of RFV II, resulting in multi-level consolidated financial statements contained herein.

IW is an independent non-profit organization with a mission to increase the success rate of southwestern Pennsylvania's technology companies and companies adopting new technologies through direct investment, business expertise, and hands-on support. As one of four Ben Franklin Technology Centers in Pennsylvania, IW is dedicated to fostering the growth of a technology-based economy in the nine-county region the organization serves (Allegheny, Armstrong, Beaver, Butler, Fayette, Greene, Lawrence, Washington and Westmoreland). IW receives funding from the Ben Franklin Challenge Grant Program, which is an initiative of the Department of Community and Economic Development ("DCED") and is funded by the Commonwealth of Pennsylvania through the Ben Franklin Technology Development Authority ("BFTDA"). IW also receives funding from federal, foundation, and other sources.

In December 2012, IW received a grant commitment of \$10,000,000 from a private foundation for creation of RFV, which would provide capital to early stage technology companies in the region. The terms of the grant required a 1:1 match (or \$10,000,000) and required RFV to begin investing in companies no later than June 30, 2014. As a result of this grant commitment, during the fiscal year ended June 30, 2013, IW formed IWMC, a for-profit management company, for the purpose of managing RFV, a for-profit venture capital fund. Of the \$10,000,000 received under this grant, \$975,118 and \$1,465,420 is recorded as deferred revenue as of June 30, 2023 and 2022, respectively.

RFV is a limited liability company, with the principal business activity to make venture capital investments in early-stage technology companies located in southwestern Pennsylvania, with the objective of receiving a high rate of return through long-term capital appreciation. On August 29, 2013, RFV held its first closing on commitments totaling \$12,000,000 and on May 22, 2014, RFV held its second closing on commitments in the amount of \$8,900,000. On December 24, 2014, RFV held a final closing on commitments of \$2,800,000, taking the total commitments to \$23,700,000. Of these amounts, IW and IWMC have committed a total of \$16,500,000 to RFV, including a commitment of \$1,500,000 on behalf of the BFTDA (see Note 2).

INNOVATION WORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

NOTE 1 - ORGANIZATION (continued)

IW plans to fund the IW and IWMC commitments in RFV through \$5,000,000 of Board designated funds and \$10,000,000 of a private foundation grant restricted for this purpose. IWMC also intends to fund a \$1,500,000 non-managing member commitment, as discussed above, from a loan payable to BFTDA as discussed in Note 2. As of June 30, 2023, IW and IWMC have funded \$14,876,784 of their total commitment, which includes funding the BFTDA commitment.

IW formed IWMC II, a for-profit management company for the purpose of managing RFV II, a for-profit venture capital fund. RFV II is a limited liability company, with the principal business activity to make venture capital investments in early-stage technology companies located in southwestern Pennsylvania, with the objective of receiving a high rate of return through long-term capital appreciation. On March 3, 2022, RFV II held its first closing on commitments totaling \$10,000,000, all of which were committed by IW and IWMC II.

IW plans to fund the IW and IWMC II commitments in RFV II through \$10,000,000 of Board designated funds. As of June 30, 2023, IW and IWMC II have funded \$720,000 of their total commitment.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

Principles of consolidation

All inter-entity transactions and balances have been eliminated in consolidation.

Noncontrolling interests in RFV are reported as a separate component of net assets without donor restrictions in the consolidated statements of financial position.

Cash and equivalents

Cash and equivalents include cash on deposit and investments in a money market mutual fund. Interest income related to such accounts is recorded when earned and is included in interest and other income in the accompanying consolidated statements of activities.

IW and its subsidiaries each maintain certain cash and equivalents in bank accounts at one institution, which, at times, may exceed federally insured limits. IW and its subsidiaries do not believe they are exposed to any significant credit risk on cash and equivalents.

INNOVATION WORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Property and equipment are recorded at cost. Additions and betterments in excess of \$10,000 are capitalized and depreciated or amortized. Equipment, computer software, and furniture and fixtures are depreciated on the straight-line method over their estimated useful lives, ranging from three to five years.

Leasehold improvements are amortized on a straight-line basis over the shorter of the remaining term of the lease or 15 years. Expenditures for routine maintenance and repairs are charged to operations as incurred.

Investments

The consolidated statements of financial position include IW's investments, RFV's investments in public securities, and investments in portfolio companies by RFV, RFV II, and IWMC.

IW's investments include investments in treasury bonds, bond mutual funds, equity mutual funds, corporate obligations, and corporate equities which are reported at fair value based on quoted market prices. Realized gains and losses on these investments are determined by the specific identification method. Realized and unrealized gains and losses and investment management fees are reported in net loss on investments in the accompanying consolidated statements of activities. Purchases and sales of investments are recorded on the trade date.

In accordance with its operating agreement, RFV's investments in public securities are to be valued based on the average price on each of the ten trading days preceding the determination date, with the price on any trading day being the closing price, which approximates the value as determined under U.S. GAAP. As of June 30, 2023, the value of public securities was determined based upon the closing price on June 30, 2023. As of June 30, 2022, the Fund's investments in public securities were valued based on the average closing price during the ten trading days preceding June 30, 2022. These investments are measured and reported at fair value and are classified as Level I of the fair value hierarchy (as described in Note 3). The public securities held by RFV were acquired as part of the consideration received from the sale of a RFV portfolio company during the year ended June 30, 2022. The cost basis in RFV's investment in public securities was determined based on an estimate of tax basis, which approximates cost under U.S. GAAP.

RFV's, RFV II's and IWMC's investments in portfolio companies are recorded at fair value. RFV, RFV II and IWMC records investment purchases and sales on the trade date and on the closing date for privately negotiated transactions. Realized gains or losses are measured by the differences between the net proceeds from the sale and the cost basis of the investment. The cost basis of securities is determined using the specific-identification method. Interest income and dividend income is recognized as of the date of record.

INNOVATION WORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments (continued)

Due to the level of risk associated with these investments, it is at least reasonably possible that changes in the fair values of investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated financial statements.

Net assets and recognition of grant revenue

Under U.S. GAAP, IW is required to report information regarding its consolidated financial position and activities according to two classes of net assets, as follows:

Without donor restrictions

Net assets without donor restrictions are not subject to grantor-imposed stipulations; however, net assets without donor restrictions includes Board designated amounts. These amounts have been designated by the Board of Directors for commitments to RFV, RFV II and for use by the IW Strategic Investment Fund.

With donor restrictions

Net assets with donor restrictions are subject to grantor-imposed stipulations that may or will be met either by actions of IW and/or the passage of time. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from donor restrictions.

In addition, net assets with donor restrictions may be subject to grantor-imposed stipulations that they be maintained permanently by IW. As of June 30, 2023 and 2022, IW had no net assets with donor restrictions that they be maintained in perpetuity.

Net assets with donor restrictions are restricted as follows as of June 30:

	<u>2023</u>	<u>2022</u>
Subject to purpose restrictions		
UpPrize	\$ 509,064	\$ 410,429
Startable rural counties program	<u>11,581</u>	<u>--</u>
	<u>\$ 520,645</u>	<u>\$ 410,429</u>

INNOVATION WORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net assets and recognition of grant revenue (continued)

During the year ended June 30, 2023, IW had two grant contracts with the DCED through the BFTDA, as follows:

	Challenge Contract #C000080271 Grant period July 1, 2021 through June 30, 2024	Challenge Contract #C000083351 Grant period July 1, 2022 through June 30, 2025
Contract amounts	\$ 3,500,000	\$ 4,106,250
Less: amounts invoiced and paid		
Prior to fiscal year 2023	3,500,000	--
During fiscal year 2023	--	4,106,250
Amounts remaining to be invoiced	\$ --	\$ --

As of June 30, 2023 and 2022, there are no amounts receivable by IW under these contracts.

IW had no other grant contracts with the DCED during the years ended June 30, 2023 and 2022.

Funds received from the DCED under all contracts are initially recorded as deferred revenue-unallocated funds. In accordance with the grant contracts, IW must use the funds as directed by the budget and mission statement for disbursements to fund recipients and operating expenses. As the Board of Directors or its Investment Approval Committee approves disbursements to fund recipients, the approved amount is reclassified from deferred revenue-unallocated funds to deferred revenue-allocated disbursements to fund recipients. Grant revenue is recorded as funds are disbursed to the recipients, as monthly operating expenses are incurred, or property and equipment is purchased. If funds are not used in accordance with the grant guidelines or if excess funds remain at the expiration of the grant period, the funds must be returned to the DCED.

IW invoices the DCED for the cost of certain equipment purchased. During the year ended June 30, 2023, IW incurred depreciation expense totaling \$7,359 on equipment purchased under DCED contracts. Equipment costs are charged to grants at the time of purchase, and as such, depreciation is not invoiced to the DCED.

INNOVATION WORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net assets and recognition of grant revenue (continued)

IW records foundation grants as contributions with or without donor restrictions when awarded, in the absence of grantor-imposed conditions on the funds. Non-cash contributions are recorded at fair value on the date of award. No non-cash contributions were received during the years ended June 30, 2023 and 2022.

IW receives federal grants which are funded on a cost reimbursement basis. IW records federal grant revenue as expenses are incurred. Amounts not reimbursed by year end are recorded as federal funds receivable.

As of June 30, 2023, IW was awarded federal grants totaling approximately \$14,090,000 which are conditional upon the incurrence of costs. Income from these contributions was not recorded in the consolidated financial statements since the related conditions were not yet satisfied as of June 30, 2023. Conditional awards received in advance of the condition being met are recorded as deferred revenue when received.

Receivables

Receivables principally include amounts due under grant contracts with the DCED, federal sources, or private foundations. Receivables also include amounts due under corporate sponsorship arrangements as well as amounts due from Allegheny Health Network (“AHN”) in connection with IW’s collaborative agreement with AHN (see Note 9). IW establishes allowances for uncollectible amounts when management determines collection on a receivable is doubtful. No allowance for doubtful accounts was necessary as of June 30, 2023 and 2022. All receivables are due to be collected within one fiscal year.

Loans payable to BFTDA

Participating loan agreement

IWMC entered into a participating loan agreement (the “loan agreement”) with BFTDA during the year ended June 30, 2015. In accordance with the loan agreement, IWMC is using the \$1,500,000 proceeds to fund a non-managing member investment position in RFV whereby the economic benefits of the non-managing member position will inure to BFTDA as described in the loan agreement. Of the total commitment of \$1,500,000 as of June 30, 2023, \$1,346,168 has been called by RFV.

The principal of the loan, together with fixed interest and non-controlling participating interest, as defined by the loan agreement, will be payable in full to the BFTDA on the maturity date. As such, the portion of RFV’s income allocated to IWMC’s non-controlling member interest is eliminated in consolidation to reflect the terms of the loan agreement which require all income from such position to inure to the benefit of the BFTDA.

INNOVATION WORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans payable to BFTDA (continued)

Participating loan agreement (continued)

The loan was to mature on September 23, 2023; however, the term was extended in accordance with the RFV's operating agreement. The loan will mature on the earlier of September 30, 2025 or the dissolution date of RFV.

In accordance with the loan agreement, IWMC is required to remit interest earnings on the cash proceeds on hand to the BFTDA twice a year. As of June 30, 2023 and 2022, interest of \$1,803 and \$77 respectively, is payable to the BFTDA and is reported in accounts payable on the consolidated statements of financial position.

COVID-19 supporting loan agreement

IWMC entered into a supporting loan agreement with BFTDA during the year ended June 30, 2021 for \$800,000. In accordance with the supporting loan agreement, proceeds were used to make small infusions of new funding to certain portfolio companies and prospective portfolio companies of RFV. The parties intend for the repayment of the supporting loan agreement to be made on dates and, generally, in the same manner as required in connection with the participating loan agreement. The economic benefits of the investments made by IWMC inure to the BFTDA (see Note 4).

Disbursements to fund recipients

In accordance with grant contracts and the IW mission statement, IW distributes money to technology and technology-adopting companies which, whether in the form of convertible promissory notes, grants, simple agreements for future equity, or equity investments, is reported as disbursements to fund recipients in the accompanying consolidated statements of functional expenses.

All outstanding principal and accrued but unpaid interest under the convertible promissory notes are convertible at IW's option into equity securities of the fund recipient upon the issuance of equity securities by such fund recipient or a merger, consolidation, or sale of substantially all of the assets of such fund recipient. Additionally, in certain situations, IW makes direct equity investments pursuant to a stock purchase agreement between IW and the fund recipient. Although IW holds convertible promissory notes and maintains equity investments in certain fund recipients, all disbursements to fund recipients are expensed due to the risk associated with the high volatility of early-stage investment and the resulting uncertainty involved in realizing a return. Recognition of disbursements to fund recipients as expenses is not expected to materially differ from recognition of the disbursements to fund recipients as investments at fair value, reduced for loss on impairment.

INNOVATION WORKS, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Disbursements to fund recipients (continued)

IW recognizes revenue upon the receipt of interest, principal, and equity returns from the fund recipients. This income is shown as royalties, loan repayments, equity returns, and interest income from fund recipients in the accompanying consolidated statements of activities. The DCED restricts the use of these funds for further disbursements to fund recipients and operating expenses. As of June 30, 2023 and 2022, IW had contractual commitments of approximately \$18,300,000 and \$15,600,000 in convertible promissory notes receivable, and a cost of approximately \$24,300,000 and \$22,200,000 of equity investments in fund recipients, respectively. As of June 30, 2023 and 2022, IW had made disbursements of the contractual commitments of approximately \$17,800,000 and \$15,400,000, respectively, resulting in convertible promissory notes receivable outstanding. Terms of IW investment contracts with fund recipients include the requirement to provide cash, equipment, or in-kind funds to match the funds provided by IW.

Leases

On July 1, 2022, IW adopted a new lease accounting standard. See “Adoption of Accounting Standards Update (“ASU”) 2016-02” below for more information.

In accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 842, IW evaluates all leases at their inception for either operating or finance lease treatment. IW records a right-of-use asset and a lease liability for the estimated present value of the lease payments over the term of the lease. Right-of-use assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Lease renewal options that are reasonably certain to be exercised are included in the lease term. IW has elected to use a risk-free discount rate for the period commensurate with the lease term as of inception of the lease or adoption date in determining the lease liability for all classes of assets. Leases that have a term of twelve months or less upon commencement date are considered short-term in nature. Accordingly, short-term leases are not included on the consolidated statements of financial position and are expensed on a straight-line basis over the lease term. In addition, certain immaterial leases have not been included on the consolidated statements of financial position and are expensed on a straight-line basis over the lease term.

Functional allocation of expenses

Expenses which are specifically identifiable are charged directly to their respective functions. Certain costs are allocated between program and supporting services. The allocations are based on estimates of employees’ time and effort associated with a particular activity.

INNOVATION WORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes

IW is qualified as a not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income and excise taxes under Section 501(a). IWMC and IWMC II are limited liability corporations that have elected to be recognized as corporations for federal and state income tax purposes. During the years ended June 30, 2023 and 2022, IWMC had no taxable income. During the years ended June 30, 2023 and 2022, IWMC II had taxable income of approximately \$99,000 and \$41,000, respectively. IWMC II recognized income tax expense of approximately \$30,000 and \$12,600 related to the years ended June 30, 2023 and 2022, respectively. Accounts payable on the June 30, 2023 and 2022 consolidated statements of financial position includes approximately \$18,700 and \$12,600, respectively, related to amounts due for income taxes. Income tax expense is included in miscellaneous expense under company investments in the consolidated statements of functional expenses. Members of RFV and RFV II are required to report their respective share of RFV's and RFV II's taxable income and loss on their respective income tax returns and are personally liable for any related taxes thereon.

The FASB ASC on Income Taxes clarifies recognition, measurement, presentation and disclosure relating to uncertain tax positions. IW and its subsidiaries evaluate uncertain tax positions for recognition by determining whether evidence indicates it is more likely than not that a position will be sustained if examined by taxing authorities. As of June 30, 2023, IW and its subsidiaries are unaware of any uncertain tax positions.

IW, IWMC, and IWMC II file tax returns based on a June 30th year-end. IW and the IWMC's tax returns for the years ended June 30, 2020 and beyond remain subject to examination by the Internal Revenue Service. IWMC II's tax returns for the years ended June 30, 2022 and beyond remain subject to examination by the Internal Revenue Service.

For tax filing purposes, the fiscal year of RFV and RFV II, as defined by the entities operating agreements, shall correspond with the fiscal year of the majority of non-tax-exempt members. As a result, RFV files tax returns based on a December 31 year-end and RFV II files tax returns based on a June 30 year-end. RFV tax returns for 2020 and beyond remain subject to examination by the Internal Revenue Service. RFV II's tax returns for the years ended June 30, 2022 and beyond remains subject to examination by the Internal Revenue Service.

Use of estimates

The preparation of consolidated 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 disclosures of contingent assets and liabilities as of year-end and the reported amounts of revenue and expenses during the year. Actual results could differ from these estimates.

INNOVATION WORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reclassifications

Certain amounts previously reported in the June 30, 2022 consolidated financial statements have been reclassified to conform to the June 30, 2023 presentation.

Subsequent events

IW and its subsidiaries evaluate events and transactions occurring subsequent to the date of the consolidated financial statements for matters requiring recognition or disclosure in the consolidated financial statements. The accompanying consolidated financial statements consider events through November 28, 2023, the date on which the consolidated financial statements were available to be issued.

Adoption of Accounting Standards Update (“ASU”) 2016-02

On July 1, 2022, IW adopted ASU 2016-02, *Leases* (FASB ASC Topic 842) and subsequent amendments thereto, which requires IW to recognize most leases on the balance sheet. IW adopted the standard under a modified retrospective approach and elected to apply the package of practical expedients that enables the carryover of historical lease determination and lease classification conclusions.

The adoption of the ASU 2016-02 resulted in the recognition of operating lease liabilities totaling \$1,718,873 and corresponding operating lease right-of-use assets totaling \$1,638,252 as of July 1, 2022. The adoption also resulted in the derecognition of deferred rent of \$80,620 that was included in other accrued liabilities on the June 30, 2022 consolidated statement of financial position. These amounts were determined based on the present value of remaining minimum lease payments, discounted using the risk-free discount rate commensurate with the remaining lease term as of the date of adoption. Existing accrued rent was recorded as a reduction to the gross operating lease right-of-use assets. There was no material impact to the timing of expense recognition in the statements of operations and comprehensive income. Prior periods were not restated and continue to be presented under legacy U.S. GAAP. Disclosures about leasing activities are presented in Note 7.

NOTE 3 - INVESTMENTS

Certain investments are held by IW to support their general operations. These investments are measured and reported at fair value which are classified and disclosed in one of the following categories based on the extent of market price observability:

Level I – Quoted prices are available in active markets for identical investments as of the reporting date. IW's investments in bond mutual funds, equity mutual funds, and corporate equities are included in Level I.

INNOVATION WORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

NOTE 3 - INVESTMENTS (continued)

Level II – Pricing inputs are other than quoted market prices included in Level I, however are observable either directly or indirectly for the investment. IW's investments in treasury bonds and corporate obligations are included in Level II.

Level III – Pricing inputs are unobservable for the investment and includes situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. IW's investments (held to support general operations) did not include any Level III investments as of June 30, 2023 or 2022.

Market price observability is affected by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

The valuations of IW's investments by the fair value hierarchy levels are as follows:

	<u>June 30, 2023</u>		
	<u>Level I</u>	<u>Level II</u>	<u>Total</u>
Bond mutual funds	\$ 15,636,297	\$ --	\$ 15,636,297
Equity mutual funds	5,407,425	--	5,407,425
Treasury bonds	--	2,137,698	2,137,698
Corporate obligations	--	601,455	601,455
Corporate equities	457,343	--	457,343
	<u>\$ 21,501,065</u>	<u>\$ 2,739,153</u>	<u>\$ 24,240,218</u>
	<u>June 30, 2022</u>		
	<u>Level I</u>	<u>Level II</u>	<u>Total</u>
Bond mutual funds	\$ 11,371,848	\$ --	\$ 11,371,848
Equity mutual funds	6,775,375	--	6,775,375
Treasury bonds	--	2,667,002	2,667,002
Corporate obligations	--	732,204	732,204
Corporate equities	527,403	--	527,403
	<u>\$ 18,674,626</u>	<u>\$ 3,399,206</u>	<u>\$ 22,073,832</u>

As of June 30, 2023 and 2022, two investments comprise approximately 65% and 52% of the fair value of the investment portfolio, respectively.

INNOVATION WORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

NOTE 4 - INVESTMENTS IN PORTFOLIO COMPANIES

RFV's, RVF II's, and IWMC's investments in portfolio companies as of June 30, 2023 and 2022 consist of direct convertible preferred stock investments and convertible notes. The transaction price is typically RFV's, RVF II's and IWMC's best estimate of the fair value at inception. When evidence supports a change to the carrying value from the transaction price, adjustments are made to reflect expected exit values in the investment's principal market under current market conditions. The adjustments require significant judgment due to the absence of quoted market prices, inherent lack of liquidity, reliance on unobservable inputs, and the long-term nature of such investments.

The estimation of fair value for these securities utilizes assumptions such as, but not limited to, material changes in a company's operations and/or financial performance, subsequent or anticipated rounds of equity financings, specific rights or terms associated with the investment (i.e. conversion features, liquidation preferences, or restrictions), industry valuations of comparable public companies and relevant market transactions, and changes in economic conditions, financing markets, and legal or regulatory environments. In certain instances, multiple valuation methodologies may be used for a particular investment and its fair value is based on a weighted average or a selected outcome within a range of multiple valuation results.

As of June 30, 2023 and 2022, the fair value of investments in private operating companies were estimated by management using valuation techniques determined by the availability and reliability of inputs relevant to the particular investment and the industry and economic environment in which the company operates. The estimated fair value of nonpublic investments in portfolio companies does not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of inherent uncertainty of valuation, the estimated fair values may be materially higher or lower than the values that would have been used had an active market for the investments existed.

Investments determined to be permanently impaired are written down or off and charged to income. No permanent impairment losses have been recognized during the years ended June 30, 2023 or 2022.

All of the RFV's, RVF II's and IWMC's investments in portfolio companies were valued using Level III inputs as of June 30, 2023 and 2022.

INNOVATION WORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

NOTE 4 - INVESTMENTS IN PORTFOLIO COMPANIES (continued)

The changes in investments in portfolio companies utilizing Level III inputs to determine fair value are as follows:

Riverfront Ventures, LLC

Balance, July 1, 2021	\$ 8,930,790
Net realized and unrealized loss	(181,683)
Cash flows	
Investments	1,165,000
Exit proceeds	(2,609,866)
Conversion of investment in portfolio companies to investments in public securities	<u>(1,433,646)</u>
Balance, June 30, 2022	5,870,595
Net realized and unrealized loss	(277,147)
Cash flows	
Investments	<u>564,989</u>
Balance, June 30, 2023	<u>\$ 6,158,437</u>

Riverfront Ventures II, LLC

Balance, July 1, 2022	\$ --
Cash flows	
Investment	<u>172,998</u>
Balance, June 30, 2022	172,998
Net unrealized loss	(51,973)
Cash flows	
Investment	<u>250,000</u>
Balance, June 30, 2023	<u>\$ 371,025</u>

INNOVATION WORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

NOTE 4 - INVESTMENTS IN PORTFOLIO COMPANIES (continued)

IW Management Company, LLC

Balance, July 1, 2021	\$	800,000
Net realized and unrealized loss		<u>(56,738)</u>
Balance, June 30, 2022		743,262
Net realized and unrealized loss		<u>(258,178)</u>
Balance, June 30, 2023	\$	<u>485,084</u>

Escrow proceeds receivable totaling \$411,256 and \$835,711 as of June 30, 2023 and 2022, respectively, are from the RFV's sale of a portfolio company investment. Amounts held in escrow are reported at net realizable value. Remaining sale proceeds originally expected to be received totaled \$835,711, which was estimated based on the company achieving certain revenue milestones. During the year ended June 30, 2023, this amount was adjusted based upon the company's performance during the year. As of June 30, 2023 the estimated amount to be received has been reduced to \$411,256. The change in the estimated sale proceeds is reflected within other loss on the consolidated statements of activities. RFV does not expect to receive the outstanding escrow receivable as of June 30, 2023 during the next fiscal year.

Net realized and unrealized losses and other losses of \$1,928,985 and \$181,683 recognized by RFV during the years ended June 30, 2023 and 2022, respectively, include net realized and unrealized losses and other losses of \$132,614 and \$24,326, respectively, which inure to the benefit of the BFTDA (see Note 2).

During the year ended June 30, 2021, IWMC used proceeds of \$800,000 received from the BFTDA Covid-19 supporting loan agreement to make investments in portfolio companies. During the years ending June 30, 2023 and 2022, net realized and unrealized losses of \$258,178 and \$56,738, respectively, inured to the benefit of the BFTDA. Accordingly, the outstanding balance of the supporting loan has been decreased by these amounts (see Note 2).

NOTE 5 - PENNSYLVANIA STATE SMALL BUSINESS CREDIT INITIATIVE SUB-ALLOCATION AGREEMENT

The American Rescue Plan Act of 2021 amended the Small Jobs Act of 2010 to reauthorize and provide monies to fund the State Small Business Credit Initiative ("SSBCI"), as a response to the economic effects of the COVID-19 pandemic. The DCED submitted and received approval from the U.S. Department of the Treasury as administrator of SSBCI, of the application for the Commonwealth's "Other Credit Support Program", the Pennsylvania State Small Business Credit Initiative ("PA-SSBCI").

INNOVATION WORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

NOTE 5 - PENNSYLVANIA STATE SMALL BUSINESS CREDIT INITIATIVE SUB-ALLOCATION AGREEMENT (continued)

During the year ended June 30, 2023, IW received \$5,893,787 of funding from the PA-SSBCI to carry out the Direct Venture Investment component of the Commonwealth's Other Credit Support Program. The Direct Venture Investment component provides funding or capital to economic development organizations in the Commonwealth to provide seed and later-stage capital for existing and emerging companies involved in the development and commercialization of technologically advanced products and processes. These funds are initially recognized as PA-SSBCI unallocated funds upon receipt. In accordance with the sub-allocation agreement, IW must use the funds as directed by the budget and mission statement for disbursements to fund recipients and operating expenses. PA-SSBCI sub-allocation funds of \$3,117,382 were disbursed to recipients or utilized for monthly operating expenses during and recognized as revenue for the year ended June 30, 2023. If funds are not used in accordance with the grant guidelines or if excess funds remain at the expiration of the sub-allocation agreement period, the funds must be returned to the DCED. The sub-allocation agreement expires on June 30, 2028.

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30:

	<u>2023</u>	<u>2022</u>
Computer equipment	\$ 24,465	\$ 42,672
Furniture and fixtures	27,982	30,546
Office equipment	42,013	43,703
Computer software	22,009	30,832
Leasehold improvements	<u>879,958</u>	<u>885,088</u>
	996,427	1,032,841
Less: accumulated depreciation and amortization	<u>930,436</u>	<u>935,920</u>
	<u>\$ 65,991</u>	<u>\$ 96,921</u>

NOTE 7 - LEASES

IW leases office space under operating leases with remaining terms ranging from 6 months to 37 months as of June 30, 2023. The office space leases contain certain renewal options; however, after considering relevant economic factors IW has not included any options to extend the leases in its calculations of the lease assets and liabilities. The Company generally has an obligation to pay real estate taxes, insurance, maintenance and operating expenses under the office lease agreements.

INNOVATION WORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

NOTE 7 - LEASES (continued)

In addition to the office space leases, IW also leases certain office equipment, primarily copiers. IW has not recorded a right-of-use asset and corresponding lease liability for these leases under FASB ASC Topic 842, as the amounts are not material to the consolidated financial statements as a whole.

The Company's leases do not include residual value guarantees or covenants.

As of June 30, 2023, the weighted-average remaining lease term for operating leases is 2.76 years, and the weighted-average discount rate is 2.87%. Cash paid for amounts included in the measurement of lease liabilities totaled approximately \$602,000 during the year ended June 30, 2023.

The components of total lease costs are as follows for the year ended June 30, 2023 :

Operating lease costs	\$ 586,017
Variable lease costs	19,633
Short-term lease costs and lease costs associated with immaterial leases	<u>16,282</u>
Total lease costs	<u>\$ 621,932</u>

Future undiscounted lease payments for operating leases with initial terms of one year or more as of June 30, 2023 are as follows:

2024	\$ 473,551
2025	363,102
2026	354,752
2027	<u>10,917</u>
Total undiscounted lease payments	1,202,322
Less: imputed interest	<u>45,161</u>
Net lease liabilities	<u>\$ 1,157,161</u>

IW entered into an operating agreement in August 2023 for additional office space. The agreement expires in March 2027 and requires monthly payments ranging between approximately \$49,500 and \$52,500 over the term of the lease. As a result of obtaining the additional office space, IW terminated two existing office space leases that were set to expire in December 2023. IW is expected to make payments on the two terminated leases through the December 2023 expiration date.

INNOVATION WORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

NOTE 8 - RETIREMENT PLAN

IW sponsors a defined contribution retirement plan covering all employees who normally work at least 20 hours per week. Contributions to the plan are based upon a percentage of compensation and the rate of employee contributions to the plan. IW contributions to the plan totaled \$427,765 and \$393,826 for the years ended June 30, 2023 and 2022, respectively.

NOTE 9 - COLLABORATIVE AGREEMENT

On September 21, 2020, IW entered into a collaborative agreement with AHN. IW and AHN entered into the agreement with the purpose of providing high-quality start-up incubation and acceleration services and facilities for life science ventures (the "Program"). The Program intends to accomplish this by identifying, analyzing, and recruiting life-sciences start-up ventures for participation in the Program and providing such program companies with a full suite of accelerator services. As permitted under U.S. GAAP, IW has elected to present amounts received under the collaborative arrangement on a gross basis. Revenue earned under this arrangement during the years ended June 30, 2023 and 2022 totaled \$728,263 and \$630,718, respectively, and is reported as Allegheny Health Network collaborative agreement revenue in the consolidated statements of activities. Receivables from Allegheny Health Network related to this agreement totaled \$119,044 and \$67,196 as of June 30, 2023 and 2022, respectively. IW utilized its own resources totaling \$157,491 and \$197,359 during the years ended June 30, 2023 and 2022, respectively, in addition to the funds received from other members of the collaborative arrangement, to pay for expenses incurred under the collaborative arrangement. Expenses under this arrangement totaled \$885,754 and \$828,077 and for the years ended June 30, 2023 and 2022, respectively, and were reported based on their functional and natural classification in the consolidated statements of functional expenses. IW is estimating that it will provide funding of approximately \$669,000 during the year ending June 30, 2024 under this agreement. In connection with this arrangement, IW entered into a five year lease with an affiliate of AHN for office space utilized by the Program, which commenced on June 1, 2021.

NOTE 10 - RELATED PARTY TRANSACTIONS

IW is affiliated with Carnegie Mellon University and the University of Pittsburgh and is governed by a Board of Directors comprised of university and private industry representatives. Any Board member who is affiliated with a fund recipient abstains from voting on any matters concerning such fund recipient.

INNOVATION WORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

NOTE 10 - RELATED PARTY TRANSACTIONS (continued)

IW incurred the following disbursements to fund recipients to entities that are owned or otherwise affiliated with Carnegie Mellon University, University of Pittsburgh, or Board members during the years ended June 30:

	<u>2023</u>	<u>2022</u>
Carnegie Mellon University	\$ <u>290,540</u>	\$ <u>1,307,687</u>
University of Pittsburgh	\$ <u>1,050,000</u>	\$ <u>275,000</u>
More than one of Carnegie Mellon University, University of Pittsburgh, or Board members	\$ <u>375,000</u>	\$ <u>50,000</u>
Board members	\$ <u>121,379</u>	\$ <u>3,406</u>

As of both June 30, 2023 and 2022, there were no related party receivables or payables.

Carnegie Mellon University and University of Pittsburgh are non-managing members of RFV with total commitments of \$500,000.

A consultant of IW, who is also a managing director of RFV, as appointed by IW, had a financial interest in Alung Technologies, Inc., one of RFV's portfolio companies, and was a member of Alung Technologies, Inc.'s Board of Directors during the year ended June 30, 2022. RFV sold its investment in Alung Technologies, Inc. in April 2022 at which time the managing director relinquished his financial interest and position on the Board of Directors.

From time to time, managing directors of RFV or RFV II may hold observation rights or a seat on the Board of Directors of a portfolio company.

IW and its subsidiaries utilize a conflict of interest policy to address situations when potential conflicts with related parties arise.

NOTE 11 - LIQUIDITY AND AVAILABILITY

The following table reflects IW's financial assets as of June 30, 2023 and 2022, reduced by amounts that are not available to meet general expenditures within one year of the consolidated statement of financial position date because of donor restrictions, contractual restrictions, or designations made by the Board of Directors.

INNOVATION WORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

NOTE 11 - LIQUIDITY AND AVAILABILITY (continued)

	2023	2022
IW financial assets		
Cash and equivalents	\$ 7,251,795	\$ 20,554,956
Receivables	627,354	218,682
Investments in mutual funds and corporate obligations	24,240,218	22,073,832
Less those unavailable for general expenditure within one year:		
Net assets subject to purpose restrictions	(520,645)	(410,429)
Cash and equivalents representing deferred revenue	(4,436,210)	(1,636,348)
Net assets designated by the Board of Directors	(35,325,056)	(37,695,858)
IW financial assets available for general expenditure within one year	\$ 1,837,456	\$ 3,104,835

As discussed in Notes 2 and 5, funds received from the DCED are initially recorded as deferred revenue until the criteria for revenue recognition have been met. If funds are not used in accordance with the grant guidelines or if excess funds remain at the expiration of the grant period, the funds must be returned to the DCED. In addition, as discussed in Note 2, certain federal funding received in advance is recorded as deferred revenue. Accordingly, cash and equivalents that are reported as deferred revenue as of June 30, 2023 and 2022 are not available for general expenditure within one year.

In addition, the Board of Directors has designated net assets totaling \$35,325,056 and \$37,695,858 as of June 30, 2023 and 2022, respectively, for commitments to RFV, RFV II and for use by the IW Strategic Investment Fund.

IW regularly monitors liquidity required to meet its operating needs and contractual commitments, while also striving to maximize the investment of available funds. Accordingly, IW adheres to a policy governing cash management, which anticipates cash needs and identifies plans to adequately satisfy them. A prudent operating reserve is kept available to meet anticipated expenditures. Any excess cash is invested in secure, liquid, income-producing instruments in accordance with IW's investment policy. The policy follows a strategy that seeks capital preservation and income through investment in fixed income securities and liquid alternatives.

INNOVATION WORKS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(continued)

NOTE 11 - LIQUIDITY AND AVAILABILITY (continued)

IW operates with a balanced budget and anticipates collecting sufficient revenue and support to cover general expenditures. IW has policies governing the approved processes for collecting and disbursing cash. Management focuses on expediting the collection of receivables from entities that are obligated to pay IW. In addition, cash disbursements are released at the latest acceptable timeframe without effecting relationships with vendors in order to maximize cash on hand. Early payment discounts are taken when applicable.

SUPPLEMENTAL INFORMATION

INNOVATION WORKS, INC.

STATEMENT OF ACTIVITIES

DCED Challenge Contract #C000055338

July 1, 2022 through June 30, 2023

Revenue		
State revenue		\$ <u>          --</u>
Expenses		
Facility costs and related support		769
Depreciation		<u>7,188</u>
Total expenses		<u>7,957</u>
Decrease in net assets		(7,957)
Net assets, beginning of year		<u>25,613</u>
Net assets, end of year		\$ <u><u>17,656</u></u>

INNOVATION WORKS, INC.

STATEMENT OF ACTIVITIES

DCED Innovate in PA Contract #C000061843

July 1, 2022 through June 30, 2023

Revenue		
State revenue		\$ <u>          --</u>
Expenses		
Facility costs and related support		809
Depreciation		<u>171</u>
Total expenses		<u>980</u>
Decrease in net assets		(980)
Net assets, beginning of year		<u>980</u>
Net assets, end of year		\$ <u><u>          --</u></u>

INNOVATION WORKS, INC.

STATEMENT OF ACTIVITIES

DCED Challenge Contract #C000074232

July 1, 2022 through June 30, 2023

Revenue		
State revenue		\$ <u>5,928</u>
Expenses		
Disbursements to fund recipients		5,928
Wages and employee benefits		--
Other direct costs		--
Facility costs and related support		<u>--</u>
Total expenses		<u>5,928</u>
Increase (decrease) in net assets		--
Net assets, beginning of year		<u>--</u>
Net assets, end of year		\$ <u><u>--</u></u>

INNOVATION WORKS, INC.

STATEMENT OF ACTIVITIES

DCED Challenge Contract #C000080271

July 1, 2022 through June 30, 2023

Revenue	
State revenue	\$ <u>165,000</u>
Expenses	
Disbursements to fund recipients	165,000
Wages and employee benefits	--
Other direct costs	--
Facility costs and related support	<u>--</u>
Total expenses	<u>165,000</u>
Increase (decrease) in net assets	--
Net assets, beginning of year	<u>--</u>
Net assets, end of year	\$ <u><u>--</u></u>

INNOVATION WORKS, INC.

STATEMENT OF ACTIVITIES

DCED Challenge Contract #C000083351

July 1, 2022 through June 30, 2023

Revenue	
State revenue	\$ <u>4,056,250</u>
Expenses	
Disbursements to fund recipients	1,992,526
Wages and employee benefits	1,240,726
Other direct costs	642,465
Facility costs and related support	<u>180,533</u>
Total expenses	<u>4,056,250</u>
Increase (decrease) in net assets	--
Net assets, beginning of year	<u>          --</u>
Net assets, end of year	\$ <u><u>          --</u></u>

INNOVATION WORKS, INC.

RECONCILIATION OF COMMONWEALTH PROGRAM FUNDS  
EXPENDED AND RELATED MATCHING CONTRIBUTIONS

Allocation year ended June 30, 2021 - Challenge  
Contract #C000074232  
For the period July 1, 2020 through June 30, 2023

	Program Funds Expended July 1, 2020 - June 30, 2021	Program Funds Expended July 1, 2021 - June 30, 2022	Program Funds Expended July 1, 2022 - June 30, 2023	Funds Related to Commonwealth Allocation Year Ended June 30, 2021
Company Investments	\$ 562,379	\$ 34,560	\$ 5,728	\$ 602,667
Business and Technical Assistance	1,345,767	4,068	200	1,350,035
Technology Infrastructure	776,371	--	--	776,371
Partner Administration Programs	770,927	--	--	770,927
Set-aside	--	--	--	--
Total Commonwealth Programs	\$ <u>3,455,444</u>	\$ <u>38,628</u>	\$ <u>5,928</u>	\$ <u>3,500,000</u>

	Awardee Matching Funds July 1, 2020 through June 30, 2023		
	Cash and Equipment	In-Kind Contributions	Total
Company Investments	\$ 4,022,232	\$ 915,881	\$ 4,938,113
Business and Technical Assistance	468,108	--	468,108
Technology Infrastructure	691,149	--	691,149
Partner Administration Programs	626,042	--	626,042
Set-aside	--	--	--
Total Commonwealth Programs	\$ <u>5,807,531</u>	\$ <u>915,881</u>	\$ <u>6,723,412</u>

INNOVATION WORKS, INC.

RECONCILIATION OF COMMONWEALTH PROGRAM FUNDS  
EXPENDED AND RELATED MATCHING CONTRIBUTIONS

Allocation year ended June 30, 2022 - Challenge

Contract #C000080271

For the period July 1, 2021 through June 30, 2023

	Program Funds Expended July 1, 2021 - June 30, 2022	Program Funds Expended July 1, 2022 - June 30, 2023	Funds Related to Commonwealth Allocation Year Ended June 30, 2022
Company Investments	\$ 1,753,828	\$ 165,000	\$ 1,918,828
Business and Technical Assistance	618,270	--	618,270
Technology Infrastructure	574,640	--	574,640
Partner Administration Programs	388,262	--	388,262
Set-aside	--	--	--
	<hr/>	<hr/>	<hr/>
Total Commonwealth Programs	\$ <u>3,335,000</u>	\$ <u>165,000</u>	\$ <u>3,500,000</u>

Awardee Matching Funds  
 July 1, 2021 through June 30, 2023

	Cash and Equipment	In-Kind Contributions	Total
Company Investments	\$ 11,995,672	\$ 1,967,022	\$ 13,962,694
Business and Technical Assistance	500,561	--	500,561
Technology Infrastructure	493,931	--	493,931
Partner Administration Programs	484,477	--	484,477
Set-aside	--	--	--
	<hr/>	<hr/>	<hr/>
Total Commonwealth Programs	\$ <u>13,474,641</u>	\$ <u>1,967,022</u>	\$ <u>15,441,663</u>

INNOVATION WORKS, INC.

RECONCILIATION OF COMMONWEALTH PROGRAM FUNDS  
EXPENDED AND RELATED MATCHING CONTRIBUTIONS

Allocation year ended June 30, 2023 - Challenge  
 Contract #C000083351  
 For the period July 1, 2022 through June 30, 2023

	Program Funds Expended July 1, 2022 - June 30, 2023	Program Funds Encumbered for Awardees to be Expended in the Future	Funds Related to Commonwealth Allocation Year Ended June 30, 2023
Company Investments	\$ 1,967,364	\$ 50,000	\$ 2,017,364
Business and Technical Assistance	788,002	--	788,002
Technology Infrastructure	793,297	--	793,297
Partner Administration Programs	507,587	--	507,587
Set-aside	--	--	--
<b>Total Commonwealth Programs</b>	<b>\$ 4,056,250</b>	<b>\$ 50,000</b>	<b>\$ 4,106,250</b>

Awardee Matching Funds  
 July 1, 2022 through June 30, 2023

	Cash and Equipment	In-Kind Contributions	Total
Company Investments	\$ 507,347	\$ 24,000	\$ 531,347
Business and Technical Assistance	785,745	--	785,745
Technology Infrastructure	1,024,537	--	1,024,537
Partner Administration Programs	483,700	--	483,700
Set-aside	--	--	--
<b>Total Commonwealth Programs</b>	<b>\$ 2,801,329</b>	<b>\$ 24,000</b>	<b>\$ 2,825,329</b>

INNOVATION WORKS, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

June 30, 2023

	Innovation Works, Inc.	Innovation Works Management Company, Inc.	Riverfront Ventures, LLC	Innovation Works Management Company, Inc. II	Riverfront Ventures, LLC II	Eliminations	Consolidated
<u>ASSETS</u>							
Cash and equivalents	\$ 17,251,795	\$ 236,984	\$ 487,105	\$ 224,970	\$ 34,854	\$ --	\$ 18,235,708
Receivables	1,382,758	--	411,256	--	--	(755,404)	1,038,610
Investments in mutual funds, corporate obligations, public securities and subsidiaries	29,244,473	587,562	163,524	(2,215)	--	(5,589,602)	24,403,742
Investments in Riverfront Ventures, LLC portfolio companies	--	--	6,158,437	--	--	--	6,158,437
Investments in Riverfront Ventures, LLC II portfolio companies	--	--	--	--	371,025	--	371,025
IW Management Company, LLC portfolio companies	--	485,084	--	--	--	--	485,084
Property and equipment, net	65,991	--	--	--	--	--	65,991
Operating lease right-of-use assets	1,092,692	--	--	--	--	--	1,092,692
Other assets	170,950	--	33,031	--	--	--	203,981
<b>Total assets</b>	<b>\$ 49,208,659</b>	<b>\$ 1,309,630</b>	<b>\$ 7,253,353</b>	<b>\$ 222,755</b>	<b>\$ 405,879</b>	<b>\$ (6,345,006)</b>	<b>\$ 52,055,270</b>
<u>LIABILITIES AND NET ASSETS</u>							
Liabilities							
Accounts payable	\$ 637,361	\$ 671,559	\$ 50	\$ 109,077	\$ 1,650	\$ (755,404)	\$ 664,293
Deferred revenue							
Committed for Riverfront Ventures, LLC	975,118	--	--	--	--	--	975,118
Pennsylvania State Small Business Credit Initiative unallocated funds	2,776,405	--	--	--	--	--	2,776,405
Other unallocated funds	634,687	--	--	--	--	--	634,687
Allocated disbursements to fund recipients	50,000	--	--	--	--	--	50,000
Loans payable to BFTDA	--	1,080,587	--	--	--	--	1,080,587
Operating lease right-of-use assets	1,157,161	--	--	--	--	--	1,157,161
Other accrued liabilities	1,479,466	--	--	12,140	--	--	1,491,606
<b>Total liabilities</b>	<b>7,710,198</b>	<b>1,752,146</b>	<b>50</b>	<b>121,217</b>	<b>1,650</b>	<b>(755,404)</b>	<b>8,829,857</b>
Net assets							
Without donor restrictions							
Controlling interests	38,768,974	(442,516)	7,253,303	101,538	404,229	(5,589,602)	40,495,926
Noncontrolling interest in Riverfront Ventures, LLC	2,208,842	--	--	--	--	--	2,208,842
<b>Total net assets without donor restrictions</b>	<b>40,977,816</b>	<b>(442,516)</b>	<b>7,253,303</b>	<b>101,538</b>	<b>404,229</b>	<b>(5,589,602)</b>	<b>42,704,768</b>
With donor restrictions	520,645	--	--	--	--	--	520,645
<b>Total net assets</b>	<b>41,498,461</b>	<b>(442,516)</b>	<b>7,253,303</b>	<b>101,538</b>	<b>404,229</b>	<b>(5,589,602)</b>	<b>43,225,413</b>
<b>Total liabilities and net assets</b>	<b>\$ 49,208,659</b>	<b>\$ 1,309,630</b>	<b>\$ 7,253,353</b>	<b>\$ 222,755</b>	<b>\$ 405,879</b>	<b>\$ (6,345,006)</b>	<b>\$ 52,055,270</b>

INNOVATION WORKS, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

June 30, 2022

	Innovation Works, Inc.	Innovation Works Management Company, Inc.	Riverfront Ventures, LLC	Innovation Works Management Company, Inc. II	Riverfront Ventures, LLC II	Eliminations	Consolidated
<b>ASSETS</b>							
Cash and equivalents	\$ 20,554,956	\$ 266,368	\$ 16,482	\$ (170)	\$ 66,732	\$ --	\$ 20,904,368
Receivables	745,092	--	835,711	49,000	--	(575,410)	1,054,393
Investments in mutual funds, corporate obligations, public securities and subsidiaries	27,473,696	626,171	1,433,646	4,000	--	(6,030,035)	23,507,478
Investments in Riverfront Ventures, LLC portfolio companies	--	--	5,870,595	--	--	--	5,870,595
Investments in Riverfront Ventures, LLC II portfolio companies	--	--	--	--	172,998	--	172,998
IW Management Company, LLC portfolio companies	--	743,262	--	--	--	--	743,262
Property and equipment, net	96,921	--	--	--	--	--	96,921
Other assets	128,005	--	7,545	--	--	--	135,550
<b>Total assets</b>	<b>\$ 48,998,670</b>	<b>\$ 1,635,801</b>	<b>\$ 8,163,979</b>	<b>\$ 52,830</b>	<b>\$ 239,730</b>	<b>\$ (6,605,445)</b>	<b>\$ 52,485,565</b>
<b>LIABILITIES AND NET ASSETS</b>							
<b>Liabilities</b>							
Accounts payable	\$ 256,051	\$ 523,817	\$ 50	\$ 20,771	\$ 49,000	\$ (575,410)	\$ 274,279
Deferred revenue							
Committed for Riverfront Ventures, LLC	1,465,420	--	--	--	--	--	1,465,420
Allocated disbursements to fund recipients	170,928	--	--	--	--	--	170,928
Loans payable to BFTDA	--	1,471,379	--	--	--	--	1,471,379
Other accrued liabilities	1,237,268	--	--	--	--	--	1,237,268
<b>Total liabilities</b>	<b>3,129,667</b>	<b>1,995,196</b>	<b>50</b>	<b>20,771</b>	<b>49,000</b>	<b>(575,410)</b>	<b>4,619,274</b>
<b>Net assets</b>							
Without donor restrictions							
Controlling interests	42,960,770	(359,395)	8,163,929	32,059	190,730	(6,030,035)	44,958,058
Noncontrolling interest in Riverfront Ventures, LLC	2,497,804	--	--	--	--	--	2,497,804
<b>Total net assets without donor restrictions</b>	<b>45,458,574</b>	<b>(359,395)</b>	<b>8,163,929</b>	<b>32,059</b>	<b>190,730</b>	<b>(6,030,035)</b>	<b>47,455,862</b>
With donor restrictions	410,429	--	--	--	--	--	410,429
<b>Total net assets</b>	<b>45,869,003</b>	<b>(359,395)</b>	<b>8,163,929</b>	<b>32,059</b>	<b>190,730</b>	<b>(6,030,035)</b>	<b>47,866,291</b>
<b>Total liabilities and net assets</b>	<b>\$ 48,998,670</b>	<b>\$ 1,635,801</b>	<b>\$ 8,163,979</b>	<b>\$ 52,830</b>	<b>\$ 239,730</b>	<b>\$ (6,605,445)</b>	<b>\$ 52,485,565</b>

SUPPLEMENTAL INFORMATION REQUIRED  
IN ACCORDANCE WITH UNIFORM GUIDANCE

INNOVATION WORKS, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2023

Federal agency/Pass-Through Agency	Pass-through award number	Federal contract award number	ALN	Federal expenditures	Passed through to subrecipients
U.S. Department of Defense Passed through Catalyst Connection AIM Higher Consortium	CATALYST-21-014	HQ00052010084	12.600	\$ <u>146,256</u>	\$ <u>    --</u>
U.S. Small Business Administration Congressional Earmarks Initiative On Ramp to Entrepreneurship Community Project Fund	N/A	SBAHQ2310041	59.059	<u>    704</u>	<u>    --</u>
U.S. Department of Commerce, NIST, MEP Passed through NextCorps Inc COVID-19 Manufacturing Readiness Levels for Startups and Contract Manufacturers	IW-RCAP2021	70NANB20H156	11.611	118,486	--
U.S. Department of Commerce - Economic Development Administration Economic Adjustment Assistance - Cluster Grants COVID-19 American Rescue Plan Act Build Back Better Regional Challenge	N/A	01-79-15315	11.307	575,050	102,329
U.S. Department of Commerce - Economic Development Administration Build to Scale - Scaling Networks in Southwestern Pennsylvania	N/A	ED22HDQ0240160	11.024	<u>    17,172</u>	<u>    --</u>
Total U.S. Department of Commerce				<u>    710,708</u>	<u>    102,329</u>
Total expenditures of federal awards				<u>\$ <u>857,668</u></u>	<u>\$ <u>102,329</u></u>

The accompanying notes are an integral part of this schedule.

INNOVATION WORKS, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The accompanying schedule of expenditures of federal awards includes the federal award activity of Innovation Works, Inc. ("IW") for the year ended June 30, 2023. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Costs Principles, and Audit Requirements of Federal Awards* "Uniform Guidance". Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the basic consolidated financial statements.

Cost principles

Expenditures reported on the schedule of expenditures of federal awards are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect costs

IW did not elect to use the 10% de minimis indirect cost rate as permitted under the Uniform Guidance.

NOTE 2 - PAYMENTS TO SUBRECIPIENTS

Federal funds passed through to subrecipients for the year ended June 30, 2023 was as follows:

Pittsburgh Robotics Network	\$	102,329
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of  
Innovation Works, Inc.

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 Innovation Works, Inc. ("IW") and Subsidiaries, which comprise the consolidated statement of financial position as of June 30, 2023, and the related consolidated statements of activities, 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 28, 2023. The financial statements of IW's wholly-owned subsidiaries, IW Management Company, LLC and IW Management Company II, LLC, which include the consolidation of IW Management Company, LLC's controlling interest in Riverfront Ventures, LLC and IW Management Company II, LLC's controlling interest in Riverfront Ventures II, LLC were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with IW Management Company, LLC, IW Management Company II, LLC, Riverfront Ventures, LLC, or Riverfront Ventures II, LLC.

*Report on Internal Control over Financial Reporting*

In planning and performing our audit of the consolidated financial statements, we considered IW's internal control over financial reporting ("internal control") as a basis for designing audit 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 IW's internal control. Accordingly, we do not express an opinion on the effectiveness of IW'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 organization's consolidated 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.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS  
(continued)

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 IW'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 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 IW's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering IW's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Sisterson & Co. LLP*

November 28, 2023

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND  
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors of  
Innovation Works, Inc.

**Report on Compliance for Each Major Federal Program**

*Opinion on Each Major Federal Program*

We have audited Innovation Works, Inc.'s ("IW") compliance with the types of compliance requirements identified as subject to audit in the *U.S. Office of Management and Budget ("OMB") Compliance Supplement* that could have a direct and material effect on each of IW's major federal programs for the year ended June 30, 2023. IW's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, IW complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

*Basis for Opinion on Each Major Federal Program*

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America ("U.S. GAAS"); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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 IW 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 each major federal program. Our audit does not provide a legal determination of IW'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 IW's federal programs.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND  
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

(continued)

*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 IW'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 U.S. 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 IW's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with U.S. 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 IW'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 IW'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 IW'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 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 material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND  
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

(continued)

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 may exist that have not been 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.

*Sisterson & Co. LLP*

November 28, 2023

INNOVATION WORKS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2023

*Summary of Auditor's Results*

1. The independent auditor's report expresses an unmodified opinion on the consolidated financial statements of Innovation Works, Inc. and Subsidiaries.
2. No significant deficiencies in internal control were disclosed during the audit of the consolidated financial statements of Innovation Works, Inc. and Subsidiaries.
3. No instances of noncompliance material to the financial statements of Innovation Works, Inc., which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies in internal control over major federal award programs were disclosed during the audit of Innovation Works, Inc.
5. The *Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance* for Innovation Works, Inc. expresses an unmodified opinion on the major federal program.
6. Audit findings, if any, that are required to be reported in accordance with 2 CFR section 200.516(a) are reported in this Schedule.
7. The program tested as a major program was:
  - ALN #11.307, U.S. Department of Commerce - Economic Development Administration Economic Adjustment Assistance – American Rescue Plan Act Build Back Better Regional Challenge
8. The threshold used for distinguishing between Type A and Type B programs was \$750,000.
9. Innovation Works, Inc. was determined to not be a low-risk auditee.

*Findings - Consolidated Financial Statement Audit*

None noted.

*Findings and Questioned Costs - Major Federal Award Programs Audit*

None noted.