

CORTICO CORPORATION

Financial Statements

December 31, 2017

CORTICO CORPORATION

December 31, 2017

CONTENTS

Independent Auditor’s Report..... 1

Statement of Financial Position 2

Statement of Activities and Changes in Net Assets..... 3

Statement of Cash Flows..... 4

Statement of Functional Expenses 5

Notes to Financial Statements..... 6

Independent Auditor's Report

Board of Directors
Cortico Corporation
Cambridge, Massachusetts

We have audited the accompanying financial statements of Cortico Corporation (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and changes in net assets, cash flows, and functional expenses, for the period from inception (September 19, 2016) to December 31, 2017, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cortico Corporation as of December 31, 2017, and the changes in its net assets and its cash flows for the initial period then ended in accordance with accounting principles generally accepted in the United States of America.

Edelstein & Company LLP

Boston, Massachusetts
November 6, 2018

CORTICO CORPORATION

Statement of Financial Position December 31, 2017

Assets:

Cash	\$ 809,679
Grant receivable	912,500
Furniture and equipment, net	<u>4,189</u>
Total assets	<u><u>\$ 1,726,368</u></u>

Liabilities and net assets

Liabilities:

Accounts payable and accrued expenses	<u>\$ 10,250</u>
---------------------------------------	------------------

Net assets:

Unrestricted	803,618
Temporarily restricted	<u>912,500</u>
Total net assets	<u><u>1,716,118</u></u>
Total liabilities and net assets	<u><u>\$ 1,726,368</u></u>

CORTICO CORPORATION

Statement of Activities and Changes in Net Assets For the Period September 19, 2016 (Inception) to December 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and support:			
Contributions and grants	\$ 1,314,001	\$ 912,500	\$ 2,226,501
Interest income	5,184	-	5,184
Realized gain on sale of donated securities	4,231	-	4,231
Total revenue and support	<u>1,323,416</u>	<u>912,500</u>	<u>2,235,916</u>
Expenses:			
Program services	400,117	-	400,117
Management and general	103,576	-	103,576
Fundraising	16,105	-	16,105
Total expenses	<u>519,798</u>	<u>-</u>	<u>519,798</u>
Change in net assets	803,618	912,500	1,716,118
Net assets, beginning of period	<u>-</u>	<u>-</u>	<u>-</u>
Net assets, end of period	<u>\$ 803,618</u>	<u>\$ 912,500</u>	<u>\$ 1,716,118</u>

CORTICO CORPORATION

Statement of Cash Flows

For the Period September 19, 2016 (Inception) to December 31, 2017

Cash flows from operating activities:	
Change in net assets	\$ 1,716,118
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation expense	246
Changes in operating assets and liabilities:	
Grant receivable	(912,500)
Accounts payable and accrued expenses	10,250
Net cash provided by operating activities	<u>814,114</u>
Cash flows from investing activities:	
Purchase of furniture and equipment	<u>(4,435)</u>
Cash flows from financing activities:	
Borrowings on personal loan from director	235,000
Repayments on personal loan from director	<u>(235,000)</u>
Net cash provided by financing activities	<u>-</u>
Net increase in cash	809,679
Cash, beginning of period	<u>-</u>
Cash, end of period	<u><u>\$ 809,679</u></u>
Supplemental financial information:	-
Cash paid during the period for interest	<u><u>\$ 4,439</u></u>

CORTICO CORPORATION

Statement of Functional Expenses

For the Period September 19, 2016 (Inception) to December 31, 2017

	<u>Programs</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salary and related	\$ 365,183	\$ 56,188	\$ 15,856	\$ 437,227
Information technology	28,654	804	227	29,685
Legal	-	20,000	-	20,000
Office expense	162	8,191	-	8,353
Accounting	-	6,163	-	6,163
Travel and meetings	5,620	-	-	5,620
Interest expense	-	4,439	-	4,439
Recruitment expenses	-	3,800	-	3,800
Office supplies	-	2,391	-	2,391
Payroll service fees	-	735	-	735
Insurance	498	77	22	597
Marketing	-	382	-	382
Depreciation	-	246	-	246
Bank service fees	-	160	-	160
Total functional expenses	<u>\$ 400,117</u>	<u>\$ 103,576</u>	<u>\$ 16,105</u>	<u>\$ 519,798</u>

CORTICO CORPORATION

Notes to Financial Statements

1. Organization and Purpose

Cortico Corporation (the “Organization”) is a not-for-profit organization established in September 2016 that endeavors to foster a healthy public sphere for all. The Organization helps journalists tell stories that are more reflective of people’s lives on the ground in communities across the United States of America. The Organization is working towards the establishment of an end-to-end machine-learning powered media analytics platform as well as artificial intelligence-fueled media technology products that surface under-heard concerns and voices in communities through “ear-to-the-ground” listening, including social media, talk radio, online news, television and prompted local conversations.

The Organization derives its revenue and support primarily from grants and contributions from private foundations and individuals.

2. Summary of Significant Accounting Policies

Financial Statement Presentation

In order to ensure the observance of limitations and restrictions placed on the use of resources available to the Organization, the Organization determines the classification of its net assets and its revenues, expenses, gains, and losses based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified as follows:

- 1) *Unrestricted net assets* represent the portion of expendable resources available for support of the Organization’s general operations.
- 2) *Temporarily restricted net assets* represent resources restricted by donors for a specific period or purpose.
- 3) *Permanently restricted net assets* represent the principal invested which cannot be expended. Income on these invested endowment funds are utilized in accordance with the donors’ stipulations.

The Organization had no permanently restricted net assets as of December 31, 2017 or for the period from September 19, 2016 (inception) to December 31, 2017.

Revenue and Support

Contributions and grants are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor imposed restrictions. Contributions that are classified as temporarily restricted support are reclassified to unrestricted net assets upon satisfaction of the restriction or expiration of the time restriction.

Interest income consists of interest earned on money market deposits.

Realized gain on sale of donated securities represents the gain realized by the Organization after liquidating donated securities shortly after receipt.

Cash

Cash consists of money market deposits held at a financial institution.

CORTICO CORPORATION

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

Furniture and Equipment

Furniture and equipment consists of office computers, which are stated at cost. Acquisitions of furniture and equipment in excess of \$5,000 that are expected to have long-term benefit are capitalized. Expenditures for maintenance and repairs are charged to expense when incurred. Depreciation is computed using the straight-line method over the estimated useful lives of these assets, which is three years.

Research and Development Activities

The Organization is working to develop media technology products driven by artificial intelligence as well as an end-to-end machine-learning powered media analytics platform. The development cost associated with these efforts will be capitalized only once technological feasibility has been achieved; all research and development costs incurred leading up to that point are expensed as period costs. Through December 31, 2017, this technological feasibility threshold had not been met for any of these initiatives.

Donated Services

Contributions of services are recognized as revenues at fair value only if the services received create or enhance non-financial assets or require specialized skills. These services are provided by individuals possessing those skills that would typically need to be purchased, if not provided by donation. The Organization did not receive donated services during the period September 19, 2016 (inception) to December 31, 2017.

Functional Allocation of Expenses

The Organization allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expenditure classification.

Use of Estimates and Subsequent Events

The presentation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Organization's management has evaluated the effect which subsequent events may have on these financial statements. Management's evaluation was completed on November 6, 2018, the date these financial statements became available to be issued. No events have occurred subsequent to the statement of financial position date and through the date of evaluation that meet the criteria required for disclosure or accrual.

Income Taxes

The Organization is a publicly supported organization whose activities are described in Internal Revenue Code Section 501(c)(3) and, therefore, is exempt from income taxes. The Organization is also exempt from Massachusetts income tax under Massachusetts General Law Chapter 180.

CORTICO CORPORATION

Notes to Financial Statements

3. Grants Receivable

Grants receivable from a private foundation was due in less than one year as of December 31, 2017. Grants receivable are stated at the amount management expects to collect on outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and a corresponding reserve based on its assessment of the current status of individual accounts. Balances that were still outstanding after management had used reasonable collection efforts are written off through a charge to the allowance and a credit to grants receivable. During the period September 19, 2016 (inception) to December 31, 2017, no receivable balances were written off. At December 31, 2017, no allowance for uncollectible grants receivable was deemed necessary.

4. Concentration Risks

A concentration risk exists in that total contributions and grants from three donors, including a director, comprised 100% of support and revenue for the period September 19, 2016 (inception) to December 31, 2017. A grant award from one donor comprised 100% of grants receivable at December 31, 2017.

The Organization has a concentration of credit risk in that it maintains deposits with financial institutions in excess of amounts insured by the Federal Deposit Insurance Corporation from time to time. The maximum deposit insurance amount is \$250,000 for interest-bearing accounts, which is applied per depositor, per insured depository institution for each account ownership category.

5. Furniture and Equipment

Furniture and equipment consisted of the following at December 31, 2017:

Equipment	\$	4,435
Less: accumulated depreciation		<u>(246)</u>
Total furniture and equipment, net	\$	<u><u>4,189</u></u>

6. Temporarily Restricted Net Assets

As of December 31, 2017, temporarily restricted net assets of \$912,500 consisted of funds restricted for the development of media technology tools to promote journalistic excellence.

7. Related Party Transactions

The Organization's co-founder and president, who also serves as the Organization's clerk, received salary and benefits totaling \$64,344 for his duties as the executive director of the Organization during the period September 19, 2016 (inception) to December 31, 2017.

In addition, a director also executed a promissory note with the Organization to loan the Organization \$235,000 in funds to support operations during the period September 19, 2016 (inception) to December 31, 2017 with interest payable annually at 3.5%. The loan, which was unsecured, was fully repaid in June 2017.