

CORTICO CORPORATION

Financial Statements

December 31, 2018

CORTICO CORPORATION

December 31, 2018

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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, 2018, and the related statements of activities and changes in net assets, cash flows, and functional expenses, for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Edelstein & Company LLP

Boston, Massachusetts
August 5, 2019

CORTICO CORPORATION

Statement of Financial Position December 31, 2018

Assets:

| | |
|------------------|--------------|
| Cash equivalents | \$ 1,212,161 |
| Grant receivable | 450,000 |
| Equipment, net | 10,305 |
| Prepaid expenses | 1,000 |

Total assets \$ 1,673,466

Liabilities and net assets

Liabilities:

| | |
|------------------|-----------|
| Accounts payable | \$ 56,130 |
| Accrued expenses | 16,880 |

Total liabilities 73,010

Net assets:

| | |
|----------------------------|-----------|
| Without donor restrictions | 1,150,456 |
| With donor restrictions | 450,000 |

Total net assets 1,600,456

Total liabilities and net assets \$ 1,673,466

CORTICO CORPORATION

Statement of Activities and Changes in Net Assets For the Year Ended December 31, 2018

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|---|---------------------------------------|------------------------------------|---------------------|
| Revenue and support: | | | |
| Contributions and grants | \$ 1,000,000 | \$ 250,000 | \$ 1,250,000 |
| In-kind support | 16,290 | - | 16,290 |
| Interest income | 13,953 | - | 13,953 |
| Net assets released from purpose restrictions | 712,500 | (712,500) | - |
| Total revenue and support | <u>1,742,743</u> | <u>(462,500)</u> | <u>1,280,243</u> |
| Expenses: | | | |
| Program services | 1,065,973 | - | 1,065,973 |
| Management and general | 275,689 | - | 275,689 |
| Fundraising | 54,243 | - | 54,243 |
| Total expenses | <u>1,395,905</u> | <u>-</u> | <u>1,395,905</u> |
| Change in net assets | 346,838 | (462,500) | (115,662) |
| Net assets, beginning of year | <u>803,618</u> | <u>912,500</u> | <u>1,716,118</u> |
| Net assets, end of year | <u>\$ 1,150,456</u> | <u>\$ 450,000</u> | <u>\$ 1,600,456</u> |

CORTICO CORPORATION

Statement of Cash Flows For the Year Ended December 31, 2018

| | |
|---|----------------------------|
| Cash flows from operating activities: | |
| Change in net assets | \$ (115,662) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | |
| Depreciation expense | 2,954 |
| Changes in operating assets and liabilities: | |
| Grant receivable | 462,500 |
| Prepaid expenses | (1,000) |
| Accounts payable | 45,880 |
| Accrued expenses | 16,880 |
| Net cash provided by operating activities | <u>411,552</u> |
| Cash flows from investing activities: | |
| Purchases of equipment | <u>(9,070)</u> |
| Net increase in cash equivalents | 402,482 |
| Cash equivalents, beginning of year | <u>809,679</u> |
| Cash equivalents, end of year | <u><u>\$ 1,212,161</u></u> |

CORTICO CORPORATION

Statement of Functional Expenses For the Year Ended December 31, 2018

| | <u>Programs</u> | <u>Management and General</u> | <u>Fundraising</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|--------------------|---------------------|
| Employee compensation and related | \$ 670,449 | \$ 143,792 | \$ 38,436 | \$ 852,677 |
| Consulting expenses | 196,875 | 41,721 | 10,848 | 249,444 |
| Information technology | 134,708 | 5,539 | 1,440 | 141,687 |
| Travel and entertainment | 17,268 | 16,304 | 948 | 34,520 |
| Accounting | - | 26,765 | - | 26,765 |
| Legal | 18,122 | 3,840 | 999 | 22,961 |
| Meetings and conferences | 11,690 | 2,477 | 644 | 14,811 |
| Rent expense | 11,365 | 2,408 | 626 | 14,399 |
| Bad debt expense on uncollectible pledge | - | 12,500 | - | 12,500 |
| Office expenses | 803 | 8,203 | 44 | 9,050 |
| Marketing | - | 5,527 | - | 5,527 |
| Miscellaneous expenses | 4,147 | 879 | 228 | 5,254 |
| Depreciation | - | 2,954 | - | 2,954 |
| Payroll service fees | - | 2,544 | - | 2,544 |
| Insurance | 546 | 116 | 30 | 692 |
| Bank service fees | - | 120 | - | 120 |
| | <u>\$ 1,065,973</u> | <u>\$ 275,689</u> | <u>\$ 54,243</u> | <u>\$ 1,395,905</u> |

CORTICO CORPORATION

Notes to Financial Statements

1. Organization and Purpose

Cortico Corporation (the “Organization”) is a nonprofit 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.

The net assets of the Organization and its revenue and support are reported in two categories as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization’s management and the Board of Directors.

Net assets with donor restrictions – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature. Those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

The Organization did not have any net assets with donor restrictions in perpetuity at December 31, 2018 or for the year ended December 31, 2018.

Revenue and Support

Contributions and grants are recorded as support with or without donor restrictions depending on the existence and/or nature of any donor imposed restrictions. Contributions that are classified as with donor restrictions are reclassified to net assets without donor restrictions upon satisfaction of the restriction or expiration of the time restriction.

Interest income consists of interest earned on money market fund.

Cash Equivalents

Cash equivalents consist of a money market fund that is liquid in nature and readily convertible to cash.

CORTICO CORPORATION

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

Equipment

Equipment consists of office computers, which are stated at cost, net of accumulate depreciation. Acquisitions of equipment in excess of \$2,500 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 costs 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.

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 received donated services during the year ended December 31, 2018 in the form of donated rent and in-kind legal fees. Donated rent and legal fees for the year ended December 31, 2018 totaled \$14,399 and \$1,890, respectively.

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. However, legal, rent, consulting, insurance, certain technology supplies, certain travel, certain office expenses, and certain miscellaneous expenses are allocated among program services, management and general, and fundraising based on the time and effort by each of the employees who provided services to the Organization.

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 August 5, 2019, 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

2. Summary of Significant Accounting Policies (continued)

New Accounting Pronouncement

In 2018, the Organization implemented Financial Accounting Standards Board issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and lack of consistency in the type of information provided about expenses and investment returns. The Organization has adjusted the presentation of these statements accordingly.

3. Availability and Liquidity

The Organization's financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date at December 31, 2018, is comprised of the following:

| | |
|--|---------------------|
| Cash equivalents | \$ 1,212,161 |
| Grant receivable | <u>450,000</u> |
| Financial assets available to meet general expenditures within the next twelve months | <u>\$ 1,662,161</u> |

For purpose of analyzing resources available to meet general expenditures over a twelve-month period, the Organization considers all expenditures related to its ongoing programs, as well as the conduct of services undertaken to support those programs to be general expenditures. Purpose restrictions on the grant receivables are expected to be satisfied within twelve months of the statement of financial position date.

4. Grant Receivable

Grant receivable from a private foundation is due in less than one year as of December 31, 2018. Grant receivable is 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 year ended December 31, 2018, the Organization wrote off \$12,500 for an uncollectible grant receivable, which is recorded as a bad debt expense in the statement of activities and changes in net assets. At December 31, 2018, no allowance for uncollectible grants receivable was deemed necessary.

5. Concentration Risks

A concentration risk exists in that total contributions and grants from two donors comprised 100% of support and revenue for the year ended December 31, 2018. A grant award from one donor comprised 100% of grants receivable at December 31, 2018.

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, which is applied per depositor, per insured depository institution for each account ownership category.

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Notes to Financial Statements

6. Equipment

Equipment consisted of the following at December 31, 2018:

| | | |
|--------------------------------|----|----------------------|
| Equipment | \$ | 13,505 |
| Less: accumulated depreciation | | <u>(3,200)</u> |
| Total equipment, net | \$ | <u><u>10,305</u></u> |

7. Temporarily Restricted Net Assets

As of December 31, 2018, temporarily restricted net assets of \$450,000 consisted of funds restricted for the development of media technology tools to promote journalistic excellence, which is an ongoing program of the Organization. During the year ended December 31, 2018, \$462,500 and \$250,000 were released from donor restrictions for the development of media technology tools to promote journalistic excellence and the Organization's continuous effort to foster a healthy public sphere, respectively.