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Board of Directors
Cortico Corporation
Boston, Massachusetts

Independent Auditor's Report

We have audited the accompanying financial statements of Cortico Corporation (a nonprofit organization), which comprise the statement of financial position as of December 31, 2020, 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls 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 controls. 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.

Board of Directors
Cortico Corporation
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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, 2020, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Prior Year Financial Statements

The financial statements of Cortico Corporation as of December 31, 2019, were audited by other auditors whose report dated January 22, 2021 expressed an unmodified opinion on those statements.

GBQ Partners LLC

Columbus, Ohio
November 12, 2021

CORTICO CORPORATION
Statements of Financial Position
December 31, 2020 and 2019

	2020	2019
ASSETS		
Assets		
Cash equivalents	\$ 1,134,986	\$ 1,273,335
Grants receivable, net	2,694,036	4,027,478
Prepaid expenses and other assets	7,000	12,250
Capitalized software, net	609,629	150,122
Equipment, net	4,195	5,660
TOTAL ASSETS	\$ 4,449,846	\$ 5,468,845
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 15,526	\$ 16,771
Accrued expenses	41,139	61,147
Note payable	292,900	-
Total liabilities	349,565	77,918
Net Assets		
Without donor restrictions	1,607,090	1,363,449
With donor restrictions	2,493,191	4,027,478
Total net assets	4,100,281	5,390,927
TOTAL LIABILITIES AND NET ASSETS	\$ 4,449,846	\$ 5,468,845

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

CORTICO CORPORATION

Statements of Activities and Changes in Net Assets For the Years Ended December 31, 2020 and 2019

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Contributions and grants	\$ 384,162	\$ -	\$ 384,162
In-kind support	7,378	-	7,378
Program revenue	71,233	63,344	134,577
Interest income	2,685	-	2,685
Net assets released from purpose restrictions	1,597,631	(1,597,631)	-
Total revenue and support	<u>2,063,089</u>	<u>(1,534,287)</u>	<u>528,802</u>
Expenses			
Program services	1,425,234	-	1,425,234
Management and general	348,728	-	348,728
Fundraising	45,486	-	45,486
Total expenses	<u>1,819,448</u>	<u>-</u>	<u>1,819,448</u>
Change in Net Assets	243,641	(1,534,287)	(1,290,646)
Net Assets - Beginning of Year	<u>1,363,449</u>	<u>4,027,478</u>	<u>5,390,927</u>
Net Assets - End of Year	<u>\$ 1,607,090</u>	<u>\$ 2,493,191</u>	<u>\$ 4,100,281</u>

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Contributions and grants	\$ 345,486	\$ 2,000,000	\$ 2,345,486
In-kind support	13,200	-	13,200
Interest income	25,920	-	25,920
Net assets released from purpose restrictions	2,081,692	(2,081,692)	-
Total revenue and support	<u>2,466,298</u>	<u>(81,692)</u>	<u>2,384,606</u>
Expenses			
Program services	1,920,375	-	1,920,375
Management and general	302,480	-	302,480
Fundraising	30,450	-	30,450
Total expenses	<u>2,253,305</u>	<u>-</u>	<u>2,253,305</u>
Change in Net Assets	212,993	(81,692)	131,301
Net Assets - Beginning of Year	<u>1,150,456</u>	<u>4,109,170</u>	<u>5,259,626</u>
Net Assets - End of Year	<u>\$ 1,363,449</u>	<u>\$ 4,027,478</u>	<u>\$ 5,390,927</u>

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

CORTICO CORPORATION

Statements of Cash Flows

For the Years Ended December 31, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities		
Change in net assets	\$(1,290,646)	\$ 131,301
Adjustments to reconcile change in net assets to net cash equivalents provided by operating activities:		
Depreciation and amortization expense	55,547	4,645
Discounts on grant receivables	(270,214)	-
Changes in operating assets and liabilities:		
Grants receivable	1,603,656	81,692
Prepaid expenses and other assets	5,250	(11,250)
Accounts payable	(1,245)	(39,359)
Accrued expenses	(20,008)	44,267
Net cash equivalents provided by operating activities	82,340	211,296
Cash Flows from Investing Activities		
Amounts paid for capitalized software	(510,563)	(150,122)
Purchase of equipment	(3,026)	-
Net cash equivalents used in investing activities	(513,589)	(150,122)
Cash Flows from Financing Activities		
Proceeds from long-term debt	292,900	-
Net (decrease) increase in cash equivalents	(138,349)	61,174
Cash Equivalents - Beginning of Year	1,273,335	1,212,161
Cash Equivalents - End of Year	\$ 1,134,986	\$ 1,273,335

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

CORTICO CORPORATION
Statements of Functional Expenses
For the Years Ended December 31, 2020 and 2019

	2020				2019			
	Program	Management and General	Fundraising	Total	Program	Management and General	Fundraising	Total
Expenses								
Employee compensation and related	\$ 993,684	\$ 243,136	\$ 31,713	\$ 1,268,533	\$ 1,317,460	\$ 180,725	\$ 20,954	\$ 1,519,139
Consulting	160,815	39,348	5,133	205,296	225,178	30,889	3,582	259,649
Information technology	75,010	18,353	2,394	95,757	164,163	22,523	2,611	189,297
Travel and entertainment	16,419	4,018	524	20,961	88,683	12,165	1,410	102,258
Rent	32,921	8,055	1,051	42,027	48,785	6,692	776	56,253
Accounting	17,471	4,275	557	22,303	-	35,104	-	35,104
Meetings and conferences	3,731	913	119	4,763	29,750	4,081	473	34,304
Office	6,459	1,580	206	8,245	21,794	2,989	347	25,130
Legal	12,572	3,076	401	16,049	7,972	1,094	127	9,193
Equipment	3,368	824	107	4,299	5,821	-	-	5,821
Depreciation	43,511	10,647	1,389	55,547	-	4,645	-	4,645
Miscellaneous	813	199	26	1,038	3,935	540	62	4,537
Payroll service fees	4,402	1,077	140	5,619	3,729	512	59	4,300
Insurance	3,509	859	112	4,480	3,105	426	49	3,580
Bank service fees	201	49	7	257	-	95	-	95
Program expenses	31,636	7,741	1,010	40,387	-	-	-	-
Other expenses	18,712	4,578	597	23,887	-	-	-	-
Total Expenses	\$ 1,425,234	\$ 348,728	\$ 45,486	\$ 1,819,448	\$ 1,920,375	\$ 302,480	\$ 30,450	\$ 2,253,305

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

Nature and Scope of Business

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.

Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Financial Statement Presentation

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

- Net Assets without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions and are available for use in Cortico's ongoing operations.
- Net Assets with Donor Restrictions – Net assets subject to donor-imposed restrictions that either expire by passage of time, can be fulfilled and removed by action of Cortico pursuant to those restrictions, and/or upon receipt of funding or passage of date upon which funds were due.

Cash Equivalents

The Organization considers all highly liquid financial instruments with original maturities of three months or less to be cash equivalents.

Summary of Significant Accounting Policies (continued)

Revenue Recognition

Contributions and Grants Revenue

The Organization recognizes contributions, which includes grants and receipts from foundations, when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Contributions of assets other than cash are recorded at their estimated fair value as of the date of the contribution. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met. The Organization records special events revenue equal to the fair value of direct benefits to donors and contribution income for the excess received when the event takes place. Contributions and grants are accounted for in accordance with ASC 958-605, *Not-for-Profit Entities – Revenue Recognition*.

Contributions received are recorded as with or without donor restrictions depending on the existence or nature of any donor restrictions. All unconditional promises to give are recorded as a receivable at the time the promise is made. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statements of activities as satisfaction of program restrictions. Contributions whose restrictions expire during the year of the contribution are recognized as revenues without donor restrictions in that year.

Exchange Transactions – Program Revenue

Included within program revenue in the statements of activities and changes in net assets are various reciprocal transactions of commensurate value that are considered exchange transactions in accordance with Accounting Standards Codification (ASC) Topic 606. Revenue for these transactions is recognized when a performance obligation has been satisfied by transferring control of promised products or services to customer in an amount that reflects the consideration the Organization expects to receive in exchange for these products and services.

Grants Receivable

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.

Summary of Significant Accounting Policies (continued)

Grants Receivable (continued)

Grants receivable that are expected to be collected within one year are recorded at their net realizable value. Grants receivable that are expected to be collected in future years are recorded at the net present value of estimated future cash flows. The discount on these amounts is computed using an appropriate discount rate commensurate with the risks involved. For both 2020 and 2019 the discount rate was 3.66%. Amortization of the discount is included in grants revenue.

Equipment

Equipment consists of office computers, which are stated at cost, net of accumulated depreciation. Acquisitions of equipment 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.

Software

Software development costs are carried at the cost of producing software less accumulated amortization. The Organization has developed media technology products driven by artificial intelligence as well as an end-to-end machine-learning powered media analytics platform. The Organization capitalizes certain costs relating to the development of the products and platform. The Organization also capitalizes costs related to specific upgrades and enhancements when it is probable the expenditure will result in additional functionality. Maintenance and operating costs are expensed as incurred. The Organization reviews the amounts capitalized for impairment whenever any events or changes and circumstances indicate that the carrying amounts of assets may not be recoverable. After being placed in service, the Organization amortizes the products and the platform using the straight-line method over their estimated useful live of five years.

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 years ended December 31, 2020 and 2019 in the form of donated rent and in-kind legal fees. Donated rent for the years ended December 31, 2020 and 2019 totaled \$0 and \$13,200, respectively. Donated legal services for the years ended December 31, 2020 and 2019 totaled \$7,378 and \$0, respectively.

Summary of Significant Accounting Policies (continued)

Cash Equivalents

Cash equivalents are maintained at financial institutions and at times, balances may exceed federally insured limits.

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.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization is also exempt from Massachusetts income tax under Massachusetts General Law Chapter 180.

The Organization performs an annual assessment for any uncertainty in income tax positions which includes an analysis of whether there are any tax positions the Organization takes with regard to unrelated business income, related deductions applied or other activities that may jeopardize its tax status and thus would meet the definition of an uncertain tax position. No tax liability accrual was recorded relating to material uncertain positions taken as management believes there are none.

Impairment of Assets

The carrying value of long-lived assets is reviewed for impairment whenever events or changes in circumstances indicate the amount of the assets may not be recoverable. When an indication of impairment is present and the undiscounted cash flows estimated to be generated by the related assets are less than the assets' carrying amount, an impairment loss will be recorded based on the difference between the carrying amount of the assets and their estimated fair value. No impairment loss was recorded for the years ended December 31, 2020 and 2019.

Paycheck Protection Program Loan Accounting Policy

Management has elected to recognize its Paycheck Protection Program (PPP) Loan received pursuant to the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) as debt until debt extinguishment occurs when the Organization is legally released from being the obligor pursuant to its forgiveness application filed with the U.S. Small Business Administration (SBA). Upon legal release as obligor, the Organization will recognize the forgiven amount as income in the statement of activities and changes in net assets.

CORTICO CORPORATION

Notes to Financial Statements

December 31, 2020 and 2019

Summary of Significant Accounting Policies (continued)

Change in Accounting Principles

Effective January 1, 2020, the Organization adopted the provisions and expanded disclosure requirements described in Accounting Standards Update (ASU) No 2014-09, Revenue from Contracts with Customers, also referred to as Accounting Standards Codification (ASC) Topic 606. In accordance with ASC 606, revenue is recognized when performance obligations are satisfied. The amount of revenue recognized reflects the consideration to which the Organization expects to be entitled to receive in exchange for promised goods and services that comprise a performance obligation. In addition, ASC 606 requires disclosures of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

New Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). Under its core principle, a lessee will recognize lease assets and liabilities for nearly all lease arrangements. The update is effective for the Organization for annual periods beginning after December 15, 2021. Management is in the process of determining the effect of this change on its accounting and disclosure of its leasing activity.

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 statements of financial position date at December 31, 2020 and 2019, are comprised of the following:

	2020	2019
Cash equivalents	\$ 1,134,986	\$ 1,273,335
Grants receivable, net	<u>2,694,036</u>	<u>2,263,631</u>
Financial assets available to meet general expenditures within the next twelve months	<u>\$ 3,829,022</u>	<u>\$ 3,536,966</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. Grants receivable whose restrictions are expected to be satisfied within twelve months of the statements of financial position date are considered available for expenditure.

CORTICO CORPORATION
Notes to Financial Statements
December 31, 2020 and 2019

Grants Receivable

Grants receivable consisted of the following at December 31, 2020 and 2019:

	2020	2019
Receivable in one year or less	\$ 1,729,344	\$ 2,333,000
Receivable between one and three years	1,000,000	2,000,000
Net present value discount	(35,308)	(305,522)
Total	\$ 2,694,036	\$ 4,027,478

During the years ended December 31, 2020 and 2019, the Organization did not write off any grants receivable as uncollectible grants receivable. At December 31, 2020 and 2019, no allowance for uncollectible grants receivable was deemed necessary.

Capitalized Software and Equipment Capitalized

During the years ended December 31, 2020 and 2019, the Organization capitalized development costs totaling \$510,563 and \$150,122, respectively.

Capitalized software and equipment consisted of the following at December 31, 2020 and 2019:

	2020	2019
Capitalized software	\$ 660,685	\$ -
Construction in progress	-	150,122
Less: accumulated depreciation/amortization	(51,056)	-
Total capitalized software, net	\$ 609,629	\$ 150,122

Equipment consisted of the following at December 31, 2020 and 2019:

	2020	2019
Equipment	\$ 16,531	\$ 13,505
Less: accumulated depreciation	(12,336)	(7,845)
Total equipment, net	\$ 4,195	\$ 5,660

CORTICO CORPORATION

Notes to Financial Statements

December 31, 2020 and 2019

Long-Term Obligations

In connection with the Paycheck Protection Program (“PPP”) under the CARES Act, in April 2020, the Organization was approved for a term note which allowed for available funds of \$292,900. The term note charges interest at a fixed rate of 1%. The original repayment terms included principal and interest payments through April 2022. In June of 2020, the PPP Flexibility Act of 2020 was signed into law, which revised the deferral period for PPP loans, allowing the Organization to defer payments until ten months after the end of the loan forgiveness covered period or when forgiveness is received. Under the terms of the PPP, up to 100% of the loan (and related interest expense) may be forgiven if the proceeds are used for covered expenses and certain other requirements related to wage rates and maintenance of full-time equivalents are met. The Organization has applied for forgiveness, and the entire principal balance and interest were forgiven in April 2021.

Concentration Risks

A concentration risk exists in that total contributions and grants from two donors comprised 98% and 100% of contributions and grants for the years ended December 31, 2020 and 2019, respectively. Grant awards from two donors comprised 100% of grants receivable at December 31, 2020 and 2019.

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.

Net Assets with Donor Restrictions

Net assets with donor restrictions consisted of the following at December 31, 2020 and 2019:

	2020	2019
Development of media technology tools	\$ 666,000	\$ 1,333,000
Laboratory for social machines	538,896	538,896
Time restricted grant	1,288,295	2,155,582
	\$ 2,493,191	\$ 4,027,478

CORTICO CORPORATION

Notes to Financial Statements

December 31, 2020 and 2019

Net Assets with Donor Restrictions (continued)

Net assets released from restrictions during the years ended December 31, 2020 and 2019 were as follows:

	2020	2019
Development of media technology tools	\$ 667,000	\$ 1,117,000
Laboratory for social machines	-	192,938
Time restricted grant	930,631	771,754
	\$ 1,597,631	\$ 2,081,692

Retirement Plan

The Organization maintains a 401 (k) retirement plan (the "Plan") for eligible employees. The Organization may provide for an employer match of employee deferral. The Organization may also contribute an additional amount as determined by the Board of Directors. The Organization's contribution to the Plan for the years ended December 31, 2020 and 2019 was \$0.

Risks and Uncertainties

In March 2020, the World Health Organization declared the global novel coronavirus disease (COVID-19) outbreak a pandemic. As of the date the financial statements were available to be issued, the Organization's operations have not been negatively impacted by the COVID-19 outbreak. However, The Organization will continue to monitor the full impact that the COVID-19 pandemic will have on its financial condition and operations.

Subsequent Events – Date of Management Evaluation

Management evaluated subsequent events through the date of the Independent Auditor's Report, the date at which the financial statements were available to be issued.