

**CORTICO CORPORATION**

**Financial Statements**

**December 31, 2019 and 2018**

**CORTICO CORPORATION**

**December 31, 2019 and 2018**

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## **Independent Auditor's Report**

Board of Directors  
Cortico Corporation  
Boston, Massachusetts

We have audited the accompanying financial statements of Cortico Corporation (a nonprofit organization), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities and changes in net assets, cash flows, and functional expenses, for the years 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 audits. We conducted our audits 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, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 10 to the financial statements, the financial statements as of December 31, 2018 and for the year then ended have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

*Edelstein & Company LLP*

Boston, Massachusetts  
January 22, 2021

# CORTICO CORPORATION

## Statements of Financial Position December 31,

	2019	2018 (As Restated)
<b>Assets:</b>		
Cash equivalents	\$ 1,273,335	\$ 1,212,161
Grants receivable, net	4,027,478	4,109,170
Prepaid expenses and other assets	12,250	1,000
Software	150,122	-
Equipment, net	5,660	10,305
<b>Total assets</b>	<u>\$ 5,468,845</u>	<u>\$ 5,332,636</u>
 <b>Liabilities and net assets</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 16,771	\$ 56,130
Accrued expenses	61,147	16,880
<b>Total liabilities</b>	<u>77,918</u>	<u>73,010</u>
 <b>Net assets:</b>		
Without donor restrictions	1,363,449	1,150,456
With donor restrictions	4,027,478	4,109,170
<b>Total net assets</b>	<u>5,390,927</u>	<u>5,259,626</u>
 <b>Total liabilities and net assets</b>	 <u>\$ 5,468,845</u>	 <u>\$ 5,332,636</u>

# CORTICO CORPORATION

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

	2019			2018 (As Restated)		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue and support:</b>						
Contributions and grants	\$ 345,486	\$ 2,000,000	\$ 2,345,486	\$ 1,000,000	\$ 3,909,170	\$ 4,909,170
In-kind support	13,200	-	13,200	16,290	-	16,290
Interest income	25,920	-	25,920	13,953	-	13,953
Net assets released from purpose restrictions	2,081,692	(2,081,692)	-	712,500	(712,500)	-
<b>Total revenue and support</b>	<u>2,466,298</u>	<u>(81,692)</u>	<u>2,384,606</u>	<u>1,742,743</u>	<u>3,196,670</u>	<u>4,939,413</u>
<b>Expenses:</b>						
Program services	1,920,375	-	1,920,375	1,065,973	-	1,065,973
Management and general	302,480	-	302,480	275,689	-	275,689
Fundraising	30,450	-	30,450	54,243	-	54,243
<b>Total expenses</b>	<u>2,253,305</u>	<u>-</u>	<u>2,253,305</u>	<u>1,395,905</u>	<u>-</u>	<u>1,395,905</u>
Change in net assets	212,993	(81,692)	131,301	346,838	3,196,670	3,543,508
<b>Net assets, beginning of year</b>	<u>1,150,456</u>	<u>4,109,170</u>	<u>5,259,626</u>	<u>803,618</u>	<u>912,500</u>	<u>1,716,118</u>
<b>Net assets, end of year</b>	<u>\$ 1,363,449</u>	<u>\$ 4,027,478</u>	<u>\$ 5,390,927</u>	<u>\$ 1,150,456</u>	<u>\$ 4,109,170</u>	<u>\$ 5,259,626</u>

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

# CORTICO CORPORATION

## Statements of Cash Flows

For the Years Ended December 31,

	2019	2018
		(As Restated)
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 131,301	\$ 3,543,508
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	4,645	2,954
Changes in operating assets and liabilities:		
Grants receivable, net	81,692	(3,196,670)
Prepaid expenses and other assets	(11,250)	(1,000)
Accounts payable	(39,359)	45,880
Accrued expenses	44,267	16,880
<b>Net cash provided by operating activities</b>	<u>211,296</u>	<u>411,552</u>
<b>Cash flows used in investing activities:</b>		
Purchase of software	(150,122)	-
Purchase of equipment	-	(9,070)
<b>Net cash flows used in investing activities</b>	<u>(150,122)</u>	<u>(9,070)</u>
<b>Net increase in cash equivalents</b>	61,174	402,482
<b>Cash equivalents, beginning of year</b>	<u>1,212,161</u>	<u>809,679</u>
<b>Cash equivalents, end of year</b>	<u>\$ 1,273,335</u>	<u>\$ 1,212,161</u>

# CORTICO CORPORATION

## Statements of Functional Expenses For the Years Ended December 31,

	2019				2018			
	Program	Management and General	Fundraising	Total	Program	Management and General	Fundraising	Total
Employee compensation and related	\$ 1,317,460	\$ 180,725	\$ 20,954	\$ 1,519,139	\$ 670,449	\$ 143,792	\$ 38,436	\$ 852,677
Consulting	225,178	30,889	3,582	259,649	196,875	41,721	10,848	249,444
Information technology	164,163	22,523	2,611	189,297	134,708	5,539	1,440	141,687
Travel and entertainment	88,683	12,165	1,410	102,258	17,268	16,304	948	34,520
Rent	48,785	6,692	776	56,253	11,365	2,408	626	14,399
Accounting	-	35,104	-	35,104	-	26,765	-	26,765
Meetings and conferences	29,750	4,081	473	34,304	11,690	2,477	644	14,811
Office	21,794	2,989	347	25,130	803	8,203	44	9,050
Legal	7,972	1,094	127	9,193	18,122	3,840	999	22,961
Equipment	5,821	-	-	5,821	-	-	-	-
Depreciation	-	4,645	-	4,645	-	2,954	-	2,954
Miscellaneous	3,935	540	62	4,537	4,147	879	228	5,254
Payroll service fees	3,729	512	59	4,300	-	2,544	-	2,544
Insurance	3,105	426	49	3,580	546	116	30	692
Bank service fees	-	95	-	95	-	120	-	120
Bad debt expense on uncollectible pledge	-	-	-	-	-	12,500	-	12,500
Marketing	-	-	-	-	-	5,527	-	5,527
	<u>\$ 1,920,375</u>	<u>\$ 302,480</u>	<u>\$ 30,450</u>	<u>\$ 2,253,305</u>	<u>\$ 1,065,973</u>	<u>\$ 275,689</u>	<u>\$ 54,243</u>	<u>\$ 1,395,905</u>

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

# CORTICO CORPORATION

## Notes to Financial Statements

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### 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 revenue and support, 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, whereby the donor has stipulated the funds be maintained in perpetuity.

The Organization did not have any net assets with donor restrictions in perpetuity as of December 31, 2019 and 2018, or for the years then ended.

#### *Recently Adopted Accounting Pronouncement*

In June 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU has different effective dates for resource recipients and resource providers. The ASU was applicable for contributions and grants received by the Organization during the fiscal year ended December 31, 2019. The adoption did not have a material impact on reported net assets as of January 1, 2019.



# CORTICO CORPORATION

## Notes to Financial Statements

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### 2. Summary of Significant Accounting Policies (continued)

#### *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 a money market fund.

#### *Cash Equivalents*

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

#### *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.

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. 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 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.

#### *Software*

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 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. 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 will amortize the products and the platform over their estimated useful live of five years. During year ended December 31, 2019, the Organization capitalized development costs totaling to \$150,122.

# CORTICO CORPORATION

## Notes to Financial Statements

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### 2. Summary of Significant Accounting Policies (continued)

#### *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, 2019 and 2018 in the form of donated rent and in-kind legal fees. Donated rent for the years ended December 31, 2019 and 2018 totaled \$13,200 and \$14,400, respectively. Donated legal services for the years ended December 31, 2019 and 2018 totaled \$0 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 January 22, 2021, the date these financial statements became available to be issued.

#### *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

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### 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 statements of financial position date at December 31, 2019 and 2018, are comprised of the following:

	<u>2019</u>	<u>2018</u>
Cash equivalents	\$ 1,273,335	\$ 1,212,161
Grants receivable, net	<u>2,263,631</u>	<u>1,414,692</u>
Financial assets available to meet general expenditures within the next twelve months	<u>\$ 3,536,966</u>	<u>\$ 2,626,853</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.

### 4. Grants Receivable

Grants receivable consisted of the following at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Receivable in one year or less	<u>\$ 2,333,000</u>	<u>\$ 1,450,000</u>
Receivable between one and three years	2,000,000	3,000,000
Net present value discount	<u>(305,522)</u>	<u>(340,830)</u>
	<u>1,694,478</u>	<u>2,659,170</u>
	<u>\$ 4,027,478</u>	<u>\$ 4,109,170</u>

During the years ended December 31, 2019 and 2018, the Organization wrote off \$0 and \$12,500 for an uncollectible grant receivable, which is reported as a bad debt expense in the statements of functional expenses. At December 31, 2019 and 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 98% and 100% of contributions and grants for the years ended December 31, 2019 and 2018, respectively. Grant awards from two donors comprised 100% of grants receivable at December 31, 2019 and 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.

# CORTICO CORPORATION

## Notes to Financial Statements

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### 6. Equipment

Equipment consisted of the following at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Equipment	\$ 13,505	\$ 13,505
Less: accumulated depreciation	<u>(7,845)</u>	<u>(3,200)</u>
Total equipment, net	<u>\$ 5,660</u>	<u>\$ 10,305</u>

### 7. Net Assets with Donor Restrictions

Net assets with donor restrictions consisted of the following at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Development of media technology tools	\$ 1,333,000	\$ 450,000
Laboratory for social machines	538,896	731,834
Time restricted grant	<u>2,155,582</u>	<u>2,927,336</u>
	<u>\$ 4,027,478</u>	<u>\$ 4,109,170</u>

Net assets released from restrictions during the years ended December 31, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Development of media technology tools	\$ 1,117,000	\$ 712,500
Laboratory for social machines	192,938	-
Time restricted grant	<u>771,754</u>	<u>-</u>
	<u>\$ 2,081,692</u>	<u>\$ 712,500</u>

### 8. Commitments

The Organization leases its office space under a non-cancellable lease arrangement (the "Lease") which expires on June 30, 2020. Future annual rental payments under this lease are \$42,000 in 2020. The Organization also leases additional office space under a tenant-at-will arrangements. Rent expense, including amounts paid under month-to-month lease arrangements for the years ended December 31, 2019 and 2018 was \$43,053 and \$0, respectively.

### 9. 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, 2019 and 2018 was \$0.

# CORTICO CORPORATION

## Notes to Financial Statements

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### 10. Prior Year Adjustment

In October 2018, a donor made an unconditional grant to the Organization in the amount of \$5,000,000. The grant was to be paid in five equal annual installments of \$1,000,000 beginning in October 2018. During the year ended December 31, 2019, the Organization discovered that the receivable relating to this grant, in the amount of \$3,000,000, had not been properly recorded as of December 31, 2018. The Organization has restated its previously issued 2018 financial statements for matters related to these previously reported items: grants receivable and grants revenues. The accompanying financial statements for 2018 have been restated to reflect the correction.

The following is a summary of the restatement for 2018:

	<u>Grants Receivable</u>	<u>Net Assets With Donor Restrictions</u>	<u>Grants Revenue</u>
As previously reported	\$ 450,000	\$ 450,000	\$ 1,250,000
Adjust for revenue recognized in incorrect period	<u>3,659,170</u>	<u>3,659,170</u>	<u>3,659,170</u>
As restated	<u><u>\$ 4,109,170</u></u>	<u><u>\$ 4,109,170</u></u>	<u><u>\$ 4,909,170</u></u>

### 11. Subsequent Events

As a result of the coronavirus (“COVID-19”) public health crisis, economic conditions have arisen that will impact the operations of the Organization. Management is unable to estimate the future financial effects, if any, on the Organization as a result of COVID-19 because of high level of uncertainties and unpredictable outcomes of this disease.

In May 2020, the Organization received a \$292,900 loan under the Small Business Administration’s (“SBA”) Paycheck Protection Program (“PPP”). The PPP loan principal may be forgiven in full or in part if the Organization uses the loan proceeds to pay certain expenses within twenty-four weeks of the date the loan was funded and also meets certain other criteria. The Organization may subsequently apply for forgiveness of the unpaid loan balance. If the SBA does not confirm forgiveness of the loan or only partly confirms loan forgiveness, the Organization will be obligated to repay the unforgiven loan balance within two years (or five years if the original note is amended as allowed under the PPP Flexibility Act) from the loan funding date plus interest of 1% per annum.