

FRACTURED ATLAS, INC. AND SUBSIDIARIES

AUGUST 31, 2018

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To the Board of Directors of
Fractured Atlas, Inc. and Subsidiaries
New York, New York

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying consolidated financial statements of Fractured Atlas, Inc. (a nonprofit organization) and affiliates, which comprise the consolidated statement of financial position as of August 31, 2018, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

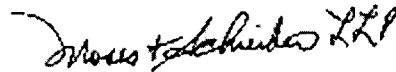
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Fractured Atlas, Inc. and affiliates as of August 31, 2018, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses and combining reports in the supplementary portion of these financial statements are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Melville, New York
December 11, 2018

FRACTURED ATLAS, INC.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2018

ASSETS

CURRENT ASSETS

Cash and cash equivalents- see note 1 and note 4	\$ 2,347,875
Inventory - see note 5	400
Investments at fair / net asset value- see note 6	9,908,588
Accounts receivable - see note 7	286,336
Note receivable - see note 8	17,000
Capital call - see note 9	12,500
Prepaid expenses - see note 10	<u>20,619</u>

TOTAL CURRENT ASSETS \$ 12,593,318

FIXED ASSETS

Computer equipment - see note 1	11,850
Machinery and office equipment - see note 1	733
Furniture and fixtures - see note 1	<u>171,085</u>
	183,668
Less: Accumulated depreciation - see note 1	<u>110,598</u>

TOTAL FIXED ASSETS 73,070

OTHER ASSETS

Goodwill- see note 1	455,134
Intellectual property- net of accumulated amortization- see note 1	24,125
Security deposit - see note 16	30,000
Artwork and other - see note 11	<u>3,600</u>

TOTAL OTHER ASSETS 512,859

TOTAL ASSETS \$ 13,179,247

See accompanying notes and independent auditor's report.

FRACTURED ATLAS, INC.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2018

LIABILITIES

Accounts payable - see note 12	\$ 234,648
Line of credit - see note 13	200,000
Note payable- see note 14	-
Investment commitment- see note 9	-

TOTAL LIABILITIES \$ 434,648

NET ASSETS

Unrestricted - see note 1 and 15	1,149,537
Temporarily restricted - see note 1 and 15	
Fiscally sponsored funds	11,208,953
Grants	270,835
	<hr/>
Total temporarily restricted funds	11,479,788

TOTAL NET ASSETS 12,629,325

Common stock - 20,000 shares authorized, 1,714 shares issued, PAR Value \$.001 - see note 1	-
Additional paid in capital	-
Noncontrolling interest	251,070
Retained deficit	(135,796)

TOTAL EQUITY

115,274

TOTAL LIABILITIES, NET ASSETS & EQUITY

\$ 13,179,247

See accompanying notes and independent auditor's report.

FRACTURED ATLAS, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2018

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Total</u>
REVENUE AND OTHER SUPPORT			
Membership dues	\$ 809,105	\$ -	\$ 809,105
Program fees and other program related revenue	874,845	-	874,845
Grants and contributions	500,104	23,905,708	24,405,812
Non deductible portion of contribution	-	255,932	255,932
Interest income	190,915	-	190,915
Realized/unrealized gain on investment	458,091	-	458,091
Miscellaneous income	11,256	-	11,256
Net assets released from restrictions	<u>22,338,615</u>	<u>(22,338,615)</u>	<u>-</u>
 TOTAL REVENUE AND OTHER SUPPORT	 25,182,931	 1,823,025	 27,005,956
EXPENSES			
Program services	23,746,352	-	23,746,352
Management and general	875,141	-	875,141
Fundraising	<u>910,450</u>	<u>-</u>	<u>910,450</u>
 TOTAL EXPENSES	 <u>25,531,943</u>	 <u>-</u>	 <u>25,531,943</u>
 CHANGES IN NET ASSETS AND EQUITY	 (349,012)	 1,823,025	 1,474,013
 CAPITAL CONTRIBUTIONS	 300,000	 -	 300,000
 NET ASSETS, SEPTEMBER 1, 2017	 <u>1,313,823</u>	 <u>9,656,763</u>	 <u>10,970,586</u>
 NET ASSETS AND EQUITY, AUGUST 31, 2018	 <u>\$ 1,264,811</u>	 <u>\$ 11,479,788</u>	 <u>\$ 12,744,599</u>

See accompanying notes and independent auditor's report.

FRACTURED ATLAS, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Changes in net assets	\$ 1,658,739
Net loss	(135,796)
Adjustments to reconcile net assets to net cash provided by operations:	
Depreciation and amortization	39,825
Noncontrolling interest in subsidiary	(48,930)
(Increase) decrease in:	
Accounts receivable	(143,765)
Inventory	250
Prepaid expenses	(13,979)
Increase (decrease) in:	
Accounts payable	(65,756)
Customer deposits	(25,750)

NET CASH PROVIDED BY OPERATING ACTIVITIES \$ 1,264,838

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investments	(3,896,701)
Proceeds from sale of investments	1,124,164
Investment	300,000
Investment commitment	(150,000)
Capital call	(12,500)

NET CASH USED BY INVESTING ACTIVITIES (2,635,037)

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from line of credit	200,000
Loans	(17,000)

NET CASH PROVIDED BY FINANCING ACTIVITIES 183,000

NET DECREASE IN CASH AND CASH EQUIVALENTS (1,187,199)

CASH AND CASH EQUIVALENTS, SEPTEMBER 1, 2017 3,535,074

CASH AND CASH EQUIVALENTS, AUGUST 31, 2018 \$ 2,347,875

See accompanying notes and independent auditor's report.

FRACTURED ATLAS, INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Fractured Atlas, Inc., (the Organization) is a national, nonprofit organization headquartered in New York, New York, empowering artists, arts organizations, and other cultural sector stakeholders by eliminating practical barriers to artistic expression, so as to foster a more agile and resilient cultural ecosystem.

Exponential Creativity Ventures, Inc. (ECV), is a new investment enterprise and subsidiary of Fractured Atlas, Inc., developed to advance Fractured Atlas' mission (described above). ECV makes early-stage investments in new companies and technologies that maximize humanity's creative and expressive potential. In keeping with Fractured Atlas' mission, ECV focuses on three broad categories of investment: Core Innovation in Frontier Technology (technology that makes wholly new forms of creative expression possible or radically lowers barriers of access to existing systems); Tools and Platforms (products that expand opportunities for creativity, with a particular emphasis on casual creatives and independent artists); and Networks and Marketplaces (platforms that connect creatives throughout the developing world to global customers and markets).

Promises to Give

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional.

Method of Accounting

The financial statements of Fractured Atlas Inc. and ECV have been prepared utilizing the accrual basis of accounting. The Organization recognizes revenue only when all of the following criteria have been met:

- Persuasive evidence of an arrangement exists;
- Delivery has occurred or services have been rendered;
- The fee for the arrangement is fixed or determinable; and
- Collectability is reasonably assured.

Financial Statement Presentation

The consolidated financial statements include the accounts of Fractured Atlas Inc. and its majority owned subsidiary. Inter organization balances and transactions have been eliminated.

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. At year end, Fractured Atlas, Inc. had unrestricted and temporarily restricted net assets.

NOTES TO FINANCIAL STATEMENTS

1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the absence or existence and nature of any donor restrictions. Amounts received that are designated for future periods, or restricted by the donor for specific purposes, are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a donor restriction is met through the passage of time or fulfillment of a purpose restriction, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions. Temporarily restricted contributions that are received and expended in the same period are reported as temporarily restricted contributions and also temporarily restricted net assets released from restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Contributed Services

Contributed in-kind support is recognized in accordance with FASB Accounting Standards Codification 958-605-25. This pronouncement requires recognition of professional services received if those services (a) create or enhance long lived assets or (b) require specialized skills; are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Fractured Atlas, Inc. received contributed revenue for legal services, lobbying and consulting services valued at the fair market value for those services. Contributed services received during fiscal year ended August 31, 2018 are recognized as contribution revenue and program expenses in the unrestricted net assets. Contributions of tangible assets are recognized at fair market value when received. The amounts reflected in the accompanying financial statements as in-kind support are offset by like amounts included in expenses or assets.

New Subsidiary Acquisition: Exponential Creativity Ventures

Following a multi-year exploratory phase, on October 26, 2017 the Fractured Atlas, Inc.'s Board of Directors approved the creation of a new entity, Exponential Creativity Ventures, Inc. (ECV). With the launch of ECV, Fractured Atlas, Inc.'s founder, Adam Huttler, departed from his role as CEO and member of the Fractured Atlas, Inc. Board on March 1, 2018 to serve as the Chief Executive Officer of ECV. With Adam's departure, the Board approved a restructured, four-person, non-hierarchical management team to serve as the organization's leadership. ECV is a C Corporation with multiple shareholders. As of August 31, 2018, Fractured Atlas, Inc. owned approximately 74% of the outstanding shares of ECV. Fractured Atlas, Inc.'s core programs and services that its members know and rely on have remained unchanged.

Cash and Cash Equivalents

The organization considers deposits that can be redeemed on demand and investments that have original maturities of less than three months, when purchased, to be cash equivalents.

Use of Estimates

Fractured Atlas, Inc. and subsidiaries prepare their financial statements in conformity with accounting principles generally accepted in the United States of America, which requires management to make estimates and assumptions that affect certain reported assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of public support, revenues, and expenses during the reporting period. Actual results could differ from those estimates.

FRACTURED ATLAS, INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Tax Status

Fractured Atlas, Inc. is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, Fractured Atlas, Inc. qualifies for the charitable contribution deduction under Section 170(b)(1)(a)(vi). The organization has been classified as an organization that is not a private foundation within the meaning of Section 509(a) of the Internal Revenue Code because it can reasonably expect to be a publicly supported organization described in section 509(a)(1). The activity of ECV (a Corporation), might expose Fractured Atlas, Inc. to unrelated business income taxes.

Equipment

Fractured Atlas, Inc. and subsidiaries capitalize all equipment and furniture in excess of \$2,500 and an estimated useful life greater than one year. Equipment is recorded at cost or estimated fair market value for donated items. Such donations are reported as unrestricted support unless the donor has restricted the asset to a specific purpose. Depreciation is provided over the estimated useful lives of the related assets using the straight-line method for financial statement purposes.

The estimated service lives of the property and equipment are principally as follows:

Computer equipment	3 - 5 years
Machinery and office equipment	2 - 3 years
Furniture and fixtures	5 - 7 years

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Computer equipment	\$ 11,850	\$ (10,975)	\$ 875
Machinery and office equipment	733	(262)	471
Furniture and fixtures	<u>171,085</u>	<u>(99,361)</u>	<u>71,724</u>
	<u>\$ 183,668</u>	<u>\$ (110,598)</u>	<u>\$ 73,070</u>

Intangible assets

Intellectual property is being amortized over its estimated useful life of 5 years.

Intellectual property	<u>\$ 65,000</u>	<u>\$ (40,875)</u>	<u>\$ 24,125</u>
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FRACTURED ATLAS, INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Estimated amortization expense for remaining estimated useful life of the intangible asset is:

<u>Year ending August 31,</u>	<u>Estimated Amortization</u>
2019	\$ 13,000
2020	11,125
	<u>\$ 24,125</u>

Depreciation and amortization expense as of August 31, 2018 amounted to \$39,825.

Goodwill

Goodwill arises upon the acquisition of a business and is measured as the excess of the fair value of the consideration paid less the identifiable assets acquired and the liabilities assumed. Goodwill is not amortized, rather it is tested for impairment annually. Goodwill impairment is assessed in relation to the value of the Fractured Atlas, Inc. as a whole, and not in relation to the specific business acquired.

Investments

Under SFAS No. 124, Accounting for Certain Investments Held by Not-for-Profit Organizations, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

Concentration of Risk

Cash and cash equivalents include all cash balances and highly liquid investments with an initial maturity of three months or less. The Organization places its temporary cash investments with high credit quality financial institutions. At times such investments may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit. Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash deposits. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to certain limits. At August 31, 2018, Fractured Atlas, Inc. had approximately \$1,640,546 and ECV had approximately \$302,274 in excess of FDIC insured limits.

Fair Value

All assets have been assessed using the 3-level "Valuation Hierarchy" for fair value measurement. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Valuation Hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the Valuation Hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of the Valuation Hierarchy and the distribution of the financial assets within it are as follows:

NOTES TO FINANCIAL STATEMENTS

1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – inputs to the valuation methodology included quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurements.

Certain financial instruments are carried at cost on the balance sheet, which approximates fair value due to their short-term, highly liquid nature. These instruments include cash and cash equivalents, accounts receivable, prepaid expenses, accounts payable, line of credit balance.

All assets, except those identified as level 3 assets, have been measured at fair value in these statements.

Net Asset Value

In accordance with Sub Topic 820-10, certain investments that are measured at fair value using the Net Asset Value per Share (or equivalent) practical expedient, have not been classified in the Fair Value Hierarchy. The Fair Value amounts presented in the tables in note 6 are intended to permit reconciliation of the fair value hierarchy to the amounts presented in statement of financial position.

Advertising

Advertising costs are expensed as incurred. Advertising expense totaled \$ 27,712 for August 31, 2018.

2. FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

3. DESCRIPTION OF PROGRAM SERVICE

Fractured Atlas, Inc. is the country's largest arts service organization, reaching a network of more than one million artists and organizations in all 50 states and all 435 congressional districts. Dedicated to empowering artists with the support they need to work effectively and thrive, Fractured Atlas, Inc.'s core programs provide funding, technology, education, and other services critical to building sustainable careers and organizations.

In 2018, Fractured Atlas, Inc. changed service providers for members' property and casualty insurance. The current partner provides a streamlined online platform for applications and now processes payment directly from our members.

This change has made the Fractured Atlas program offerings for our members more efficient and more accessible.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of August 31, 2018 was \$2,347,875. Money market and certificates of deposits are recorded as investments.

NOTES TO FINANCIAL STATEMENTS

5. INVENTORY

A disregarded LLC from Fractured Atlas Inc's former Innovation Incubator project sold shares in exchange for artwork. At the conclusion of fiscal year ending August 31, 2014, more artwork was created than shares sold resulting in inventory available for sale. The inventory has been valued based on share price. The balance at August 31, 2018 was \$400.

6. INVESTMENTS AT FAIR VALUE / NET ASSET VALUE

The Organization's short-term investments comprise equity and debt securities, classified as trading securities and are carried at their fair value based on the quoted market prices of the securities at August 31, 2018. Market risk could occur and is dependent on the future changes in market prices of various investments held. The Organization's private fund investments that do not have readily determinable fair value, are listed at their net asset value. Net realized and unrealized gains and losses on trading securities are included in net earnings. For purpose of determining realized gains and losses, the cost of securities sold is based on specific identification.

Fractured Atlas, Inc. strives through technology and innovation to eliminate barriers to artistic expression and empower creatives in the making of their work. In October of 2017, Fractured Atlas, Inc.'s Board approved the creation of an impact investment fund, Exponential Creative Ventures, Inc. (ECV). This new company makes early investments in startups that use technology to expand or improve human creative capacity.

As of August 31, 2018, ECV held 11 investments at an aggregate purchase price of \$1,085,000. One investment is in another venture capital fund; the other 10 are all early-stage start up corporations. These start-ups are developing innovative, new technologies across a range of industries (e.g., art, music, gaming, design, virtual reality, augmented reality, etc.) that are relevant both to ECV's investment thesis and Fractured Atlas, Inc's mission. The investments include a mix of convertible notes, equity, and other standard instruments.

The composition of investments, classified as current assets, is as follows:

	August 31, 2018		
	Fractured Atlas	ECV	Total
	Fair Value		
<u>Level 1</u>			
Money Market	\$ 45,913	\$ -	\$ 45,913
Mutual Funds	4,404,905	-	4,404,905
Stock	773,463	-	773,463
Exchange Traded Funds	3,599,307	-	3,599,307
Total Trading Securities	\$ 8,823,588	\$ -	\$ 8,823,588

NOTES TO FINANCIAL STATEMENTS

6. INVESTMENTS AT FAIR VALUE / NET ASSET VALUE (continued)

	<u>Fractured Atlas</u>	<u>ECV</u>	<u>Total</u>
	<u>Net Asset Value</u>		
<u>Level 3</u>			
Venture Capital Fund	\$ -	\$ 100,000	\$ 100,000
Early Stage Start-up Corporations	-	985,000	985,000
	<u>\$ -</u>	<u>\$ 1,085,000</u>	<u>\$ 1,085,000</u>
Total Investments	<u>\$ 8,823,588</u>	<u>\$ 1,085,000</u>	<u>\$ 9,908,588</u>

Investment income for year ended August 31, 2018 consists of the following:

	<u>Fractured Atlas</u>	<u>ECV</u>	<u>Total</u>
Gross realized gains	\$ 456,593	\$ -	\$ 456,593
Gross realized losses	(63,992)	-	(63,992)
Dividend and Interest Income	190,836	79	190,915
Unrealized holding gains	414,809	-	414,809
Unrealized holding losses	(349,319)	-	(349,319)
Net Investment Income	<u>\$ 648,927</u>	<u>\$ 79</u>	<u>\$ 649,006</u>

Investment expenses for the year ended August 31, 2018 amounted to \$44,748 and are included in service charges and processing fees expense.

7. ACCOUNTS RECEIVABLE

Accounts receivable primarily consists of outstanding balances due from grant agreements. Management has not set up an allowance for doubtful accounts because historically accounts receivable have been collectible.

8. NOTE RECEIVABLE

There is a note receivable recorded on ECV's books as of August 31, 2018. Part of this is eliminated when consolidating because it is money Fractured Atlas, Inc. promised to ECV for investment. The balance of \$17,000 is a short-term loan ECV agreed to make to a portfolio company to help ensure continuity of business operations during a cash flow crunch. The agreement stated that interest would only be accrued at a rate of 12% if the loan was not repaid by September 1, 2018. After the close of the fiscal year, this note was restructured into a convertible note and combined with ECV's initial investment.

9. CAPITAL CALL/ INVESTMENT COMMITMENT

It is standard practice in venture capital companies to allow investors to hold onto their committed capital until the fund is ready to deploy it. ECV has a receivable for the funds that have been committed but not paid yet. Part of this commitment receivable is from Fractured Atlas, Inc., so there is an eliminating entry to show the net amount.

FRACTURED ATLAS, INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

10. PREPAID EXPENSES

Prepaid expenses consist of amounts paid in advance for items that had not yet occurred as of the end of the fiscal year, including conferences and rent and utilities.

Rent	\$	17,911
Utilities		150
Conferences		2,558
	\$	<u>20,619</u>

11. ARTWORK AND OTHER

Artwork and other consists of the following:

Artwork	\$	3,275
"Fractured Atlas" Trademark		325
	\$	<u>3,600</u>

12. ACCOUNTS PAYABLE

Accounts payable consists of amounts due to various vendors in the ordinary course of business.

13. LINE OF CREDIT

ECV has a line of credit of \$250,000 with Chase Bank. The purpose of the line was to give ECV the flexibility to weather short term fluctuations in investment needs without requiring any acceleration of planned capital calls. The outstanding balance as of August 31, 2018 was \$200,000.

14. NOTE PAYABLE

Fractured Atlas, Inc. entered into an agreement with ECV on March 6, 2018. Fractured Atlas, Inc. agreed to loan to ECV the amount of \$750,000, which shall be used to fund ECV's expenses for the two-year period beginning on the date of the initial closing. This note is non-interest bearing. If at the end of the two-year period the fund sells shares to stockholders (other than Fractured Atlas, Inc.) with an aggregate purchase price of at least \$1,250,000, at a per share price of not less than \$1,000 per share, this loan shall convert automatically to the number of shares of common stock determined by dividing the principal amount by the per share purchase price of the shares purchased by the principal stockholder as of the end of the first loan term. The first loan shall be deemed to have been paid in full.

In the event that the conversion conditions are not met at the end of the first loan term, the note shall be payable in equal annual installments over the immediately following five years.

15. RESTRICTION ON NET ASSETS

Temporarily restricted net assets are available for specific artists (fiscally sponsored funds) or grants designated for a future period.

FRACTURED ATLAS, INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

16. LEASE COMMITMENTS

In February 2010, the Organization signed a lease for new office space. This lease commenced April 1, 2010 and will terminate on March 31, 2020. The monthly rent for the first six months of the lease was \$9,000 per month. For the next fiscal period ending September 2011 the rent increased to \$13,000 per month. For the fiscal period ending September 2012 the rent increased to \$15,000. Thereafter the rent will increase at a rate of three percent (3%) per year.

The office rent expense amounted to \$214,595 for the periods August 31, 2018.

Minimum annual rental commitments under non-cancelable leases are as follows at:

<u>Year ending</u> <u>August 31,</u>	<u>Minimum Lease</u> <u>Commitments</u>
2019	\$ 220,840
2020	132,457
	<u>\$ 353,297</u>

Fractured Atlas, Inc. has a security deposit with the owner of the building of \$30,000, equal to two (2) months rent, which is refundable at the end of the lease term.

17. IN- KIND DONATIONS

Contributed services received include the following:

Pillsbury Winthrop - legal services	\$ 226,963
Morrison & Foerster LLP - legal services	1,943
State & Broadway, Inc.- lobbying services	12,000
Materials and supplies	147,548
	<u>\$ 388,454</u>

18. NON-CASH STOCK DONATIONS

During the years ended August 31, 2018, Fractured Atlas, Inc. received \$423,612, in non-cash donations of stock that have been reflected in the financial statements.

19. RETIREMENT PLAN

Fractured Atlas, Inc. employees are eligible to participate in the Organization's 401(k) plan upon hire. The 401(k) plan is administered by BPAS. The plan is fully vested immediately, there is no waiting period. Employees choose whether to contribute to a traditional 401(k) plan or a Roth 401(k), or both. The first four percent (4%) contributed will be matched one to one. The employer match will always be invested in a traditional 401(k) plan. At the October 2017 board meeting, the Board unanimously voted to increase the employer match to five percent (5%) as of January 1, 2018.

NOTES TO FINANCIAL STATEMENTS

20. LOBBYING EXPENSES

Fractured Atlas, Inc. retains lobbyists to encourage elected officials to support their membership in districts that they live and work. The lobbyists work to connect Fractured Atlas, Inc. with appropriate agencies. In 2017 Fractured signed a pro bono working agreement with State & Broadway, Inc. for their lobbying services. The total amount of lobbying expenses, based on fair market value of services, for August 31, 2018 were \$12,000.

21. CONTINGENT LOAN COMMITMENT

Fractured Atlas, Inc. has also committed to potentially loan ECV an additional \$1,125,000 at the end of the first loan term provided the Board of Fractured Atlas Inc. determines that the loan would not have a material adverse effect on the financial condition, operating results or prospects of Fractured Atlas Inc. This note would also be non-interest bearing. If committed this loan would also automatically convert to common stock if ECV sells shares to stockholders (other than Fractured Atlas, Inc.) with an aggregate purchase price of \$2,500,000 at a per share purchase price of no less than \$1,000. The number of shares of common stock it will convert to would be calculated by dividing the principal amount of the loan by the average per share price of shares sold as of the end of the second loan term. Upon conversion of this loan the loan shall be deemed paid in full.

In the event that the conversion conditions are not met, the principal amount of this loan would be payable by ECV in equal annual installments over the immediately succeeding five calendar years.

22. RESERVE FUND

On October 28, 2010, the Board of Directors established a Strategic Opportunities Reserve fund. The purpose of the fund is to finance strategic opportunities that fall outside the organization's existing day-to-day operations and require a non-recurring investment of capital. Examples of potential uses of the fund include: expansion or enhancement of activities that are successful from the mission and business criteria, startup for high potential programs and core operating needs, temporary shortfalls in operating budget, emergency repairs and capital purchases. As of August 31, 2018, \$386,250 in unrestricted net assets are available in this fund.

23. SUBSEQUENT EVENTS

In accordance with ASC 855, the Organization evaluated subsequent events through December 11, 2018, the date these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

SUPPLEMENTARY
INFORMATION

FRACTURED ATLAS, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2018

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salary and wages	\$ 1,716,651	\$ 522,933	\$ 528,200	\$ 2,767,784
Payroll taxes	130,498	43,297	40,153	213,948
Employee insurance	74,769	17,254	23,006	115,029
Retirement	54,842	12,656	16,875	84,373
Employee benefits	8,846	4,065	2,722	15,633
Travel and entertainment	104,327	35,947	24,309	164,583
Professional fees	651,189	114,556	128,124	893,869
Occupancy	163,106	37,536	50,048	250,690
Office equipment and supplies	23,915	10,204	6,665	40,784
Utilities	19,077	5,512	5,870	30,459
Telecom	82,885	18,597	24,796	126,278
Grants and direct assistance	20,299,827	-	-	20,299,827
Service charges and processing fees	251,259	17,828	22,056	291,143
Insurance	28,909	6,671	8,895	44,475
Depreciation and amortization	25,886	5,974	7,965	39,825
Advertising	16,922	7,759	3,030	27,711
Licenses and permits	17,955	3,997	3,930	25,882
Dues and subscriptions	63,847	10,242	13,656	87,745
Bad debt expense	11,642	113	150	11,905
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL EXPENSES	<u>\$ 23,746,352</u>	<u>\$ 875,141</u>	<u>\$ 910,450</u>	<u>\$ 25,531,943</u>

See accompanying notes and independent auditor's report.

FRACTURED ATLAS, INC.

COMBINING STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2018

	Fractured Atlas, Inc.	Exponential Creative Ventures, Inc.	Eliminating Entries	Total
CURRENT ASSETS				
Cash and cash equivalents	\$ 1,795,606	\$ 552,269	-	\$ 2,347,875
Inventory	400	-	-	400
Investments at fair / net asset value	10,083,588	1,085,000	(1,260,000)	9,908,588
Accounts receivable	284,836	1,500	-	286,336
Note receivable	-	485,750	(468,750)	17,000
Capital call	-	208,750	(196,250)	12,500
Prepaid expenses	20,619	-	-	20,619
TOTAL CURRENT ASSETS	12,185,049	2,333,269	(1,925,000)	12,593,318
FIXED ASSETS				
Computer equipment	11,850	-	-	11,850
Machinery and office equipment	733	-	-	733
Furniture and fixtures	171,085	-	-	171,085
Less: Accumulated depreciation	183,668	-	-	183,668
	110,598	-	-	110,598
TOTAL FIXED ASSETS	73,070	-	-	73,070
OTHER ASSETS				
Goodwill	455,134	-	-	455,134
Intellectual property- net of accumulated amortization	24,125	-	-	24,125
Security deposit	30,000	-	-	30,000
Artwork and other	3,600	-	-	3,600
Long-term note receivable	750,000	-	(750,000)	-
TOTAL OTHER ASSETS	1,262,859	-	(750,000)	512,859
TOTAL ASSETS	\$ 13,520,978	\$ 2,333,269	\$ (2,675,000)	\$ 13,179,247

See accompanying notes and independent auditor's report.

FRACTURED ATLAS, INC.

COMBINING STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2018

	Fractured Atlas, Inc.	Exponential Creative Ventures, Inc.	Eliminating Entries	Total
CURRENT LIABILITIES				
Accounts payable	\$ 226,653	\$ 7,995	-	\$ 234,648
Line of credit	-	200,000	-	200,000
Note payable	468,750	-	(468,750)	-
Investment commitment	196,250	-	(196,250)	-
TOTAL CURRENT LIABILITIES	891,653	207,995	(665,000)	434,648
LONG TERM DEBT				
Long-term liabilities	-	750,000	(750,000)	-
TOTAL LONG TERM DEBT	-	750,000	(750,000)	-
TOTAL LIABILITIES	891,653	957,995	(1,415,000)	434,648
NET ASSETS				
Unrestricted	1,149,537	-	-	1,149,537
Temporarily restricted	-	-	-	-
Fiscally Sponsored Funds	11,208,953	-	-	11,208,953
Grants	270,835	-	-	270,835
Total Temporarily restricted funds	11,479,788	-	-	11,479,788
TOTAL NET ASSETS	12,629,325	-	-	12,629,325
EQUITY				
Common stock - 20,000 shares authorized, 1,714 shares issued, PAR Value \$.001	-	2	(2)	-
Additional Paid in Capital	-	1,559,998	(1,559,998)	-
Noncontrolling interest	-	-	251,070	251,070
Retained deficit	-	(184,726)	48,930	(135,796)
TOTAL EQUITY	-	1,375,274	(1,260,000)	115,274
TOTAL NET ASSETS AND EQUITY	12,629,325	1,375,274	(1,260,000)	12,744,599
TOTAL LIABILITIES, NET ASSETS & EQUITY	\$ 13,520,978	\$ 2,333,269	\$ (2,675,000)	\$ 13,179,247

See accompanying notes and independent auditor's report.

FRACTURED ATLAS, INC.

COMBINING STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2018

	Fractured Atlas, Inc.		Exponential Creativity Ventures, Inc.		Eliminating Entries	Total
	Unrestricted	Temporarily Restricted	Unrestricted			
REVENUE AND OTHER SUPPORT						
Membership dues	\$ 809,105	\$ -	\$ -	\$ -	\$ -	\$ 809,105
Program fees and other program related revenue	874,845	-	-	-	-	874,845
Grants and contributions	500,104	23,905,708	-	-	-	24,405,812
Non deductible portion of contribution	-	255,932	-	-	-	255,932
Interest income	190,836	-	79	-	-	190,915
Realized/unrealized gain on investment	458,091	-	-	-	-	458,091
Miscellaneous income	3,756	-	7,500	-	-	11,256
Net assets released from restrictions	<u>22,338,615</u>	<u>(22,338,615)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL REVENUE AND OTHER SUPPORT	25,175,352	1,823,025	7,579	-	-	27,005,956
EXPENSES						
Program services	23,746,352	-	-	-	-	23,746,352
Management and general	682,836	-	192,305	-	-	875,141
Fundraising	<u>910,450</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>910,450</u>
TOTAL EXPENSES	<u>25,339,638</u>	<u>-</u>	<u>192,305</u>	<u>-</u>	<u>-</u>	<u>25,531,943</u>
NET LOSS	-	-	(184,726)	48,930	-	(135,796)
CHANGES IN NET ASSETS	(164,286)	1,823,025	-	-	-	1,658,739
RETAINED EARNINGS SEPTEMBER 1, 2017	-	-	-	-	-	-
CONTRIBUTIONS	-	-	1,560,000	(1,260,000)	-	300,000
NONCONTROLLING INTEREST				(48,930)	-	(48,930)
NET ASSETS, SEPTEMBER 1, 2017	<u>1,313,823</u>	<u>9,656,763</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,970,586</u>
NET ASSETS, AUGUST 31, 2018	<u>\$ 1,149,537</u>	<u>\$ 11,479,788</u>	<u>\$ 1,375,274</u>	<u>\$ (1,260,000)</u>	<u>\$ -</u>	<u>\$ 12,744,599</u>

See accompanying notes and independent auditor's report.

FRACTURED ATLAS, INC.

COMBINING STATEMENTS OF NET ASSETS/RETAINED EARNINGS
FOR THE PERIOD ENDED AUGUST 31, 2018

	Fractured Atlas, Inc.	Exponential Creative Ventures, Inc.	Eliminating Entries	Total
NET ASSETS AT BEGINNING OF YEAR	\$ 10,970,586	\$ -	-	\$ 10,970,586
ADD: CHANGE IN NET ASSETS	1,658,739	-	-	1,658,739
NONCONTROLLING INTEREST	-	-	(48,930)	(48,930)
DEDUCT: NET LOSS	-	(184,726)	48,930	(135,796)
ADD: CONTRIBUTIONS	-	1,560,000	(1,260,000)	300,000
RETAINED EARNINGS AND NET ASSETS AT END OF YEAR	\$ 12,629,325	\$ 1,375,274	\$ (1,260,000)	\$ 12,744,599

See accompanying notes and independent auditor's report.

FRACTURED ATLAS, INC.

COMBINING STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2018

	Fractured Atlas, Inc.	Exponential Creative Ventures, Inc.	Eliminating Entries	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Changes in net assets	\$ 1,658,739	\$ -	\$ -	\$ 1,658,739
Net loss	-	(184,726)	48,930	(135,796)
Adjustments to reconcile net assets to net cash provided by operations:				
Depreciation and amortization	39,825	-	-	39,825
Noncontrolling interest in subsidiary	-	-	(48,930)	(48,930)
(Increase) decrease in:				
Accounts receivable	(142,265)	(1,500)	-	(143,765)
Inventory	250	-	-	250
Prepaid expenses	(13,979)	-	-	(13,979)
Increase (decrease) in:				
Accounts payable	(73,751)	7,995	-	(65,756)
Customer deposits	(25,750)	-	-	(25,750)
	<u>1,443,069</u>	<u>(178,231)</u>	<u>-</u>	<u>1,264,838</u>
NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES				
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	(4,071,701)	(1,085,000)	1,260,000	(3,896,701)
Proceeds from sale of investments	1,124,164	-	-	1,124,164
Investment	-	1,560,000	(1,260,000)	300,000
Investment commitment	46,250	-	(196,250)	(150,000)
Capital call	-	(208,750)	196,250	(12,500)
	<u>(2,901,287)</u>	<u>266,250</u>	<u>-</u>	<u>(2,635,037)</u>
NET PROVIDED/(USED) BY INVESTING ACTIVITIES				
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from line of credit	-	200,000	-	200,000
Loan	468,750	(485,750)	-	(17,000)
Note payable	(750,000)	750,000	-	-
	<u>(281,250)</u>	<u>464,250</u>	<u>-</u>	<u>183,000</u>
NET CASH PROVIDED/(USED) BY FINANCING ACTIVITIES				
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(1,739,468)</u>	<u>552,269</u>	<u>-</u>	<u>(1,187,199)</u>
CASH AND CASH EQUIVALENTS, SEPTEMBER 1, 2017	<u>3,535,074</u>	<u>-</u>	<u>-</u>	<u>3,535,074</u>
CASH AND CASH EQUIVALENTS, AUGUST 31, 2018	<u>\$ 1,795,606</u>	<u>\$ 552,269</u>	<u>\$ -</u>	<u>\$ 2,347,875</u>

See accompanying notes and independent auditor's report.

FRACTURED ATLAS, INC.

COMBINING STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2018

	<u>Fractured Atlas, Inc.</u>			<u>ECV</u>	<u>Total</u>
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Management and General</u>	
Salary and wages	\$ 1,716,651	\$ 396,150	\$ 528,200	\$ 126,783	\$ 2,767,784
Payroll taxes	130,498	30,115	40,153	13,182	213,948
Employee insurance	74,769	17,254	23,006	-	115,029
Retirement	54,842	12,656	16,875	-	84,373
Employee benefits	8,846	2,041	2,722	2,024	15,633
Travel and entertainment	104,327	18,232	24,309	17,715	164,583
Professional fees	651,189	96,093	128,124	18,463	893,869
Occupancy	163,106	37,536	50,048	-	250,690
Office equipment and supplies	23,915	4,999	6,665	5,205	40,784
Utilities	19,077	4,402	5,870	1,110	30,459
Telecom	82,885	18,597	24,796	-	126,278
Grants and direct assistance	20,299,827	-	-	-	20,299,827
Service charges and processing fees	251,259	16,542	22,056	1,286	291,143
Insurance	28,909	6,671	8,895	-	44,475
Depreciation and amortization	25,886	5,974	7,965	-	39,825
Advertising	16,922	2,272	3,030	5,487	27,711
Taxes, licenses and permits	17,955	2,947	3,930	1,050	25,882
Dues and subscriptions	63,847	10,242	13,656	-	87,745
Bad debt expense	11,642	113	150	-	11,905
TOTAL EXPENSES	<u>\$ 23,746,352</u>	<u>\$ 682,836</u>	<u>\$ 910,450</u>	<u>\$ 192,305</u>	<u>\$ 25,531,943</u>

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