

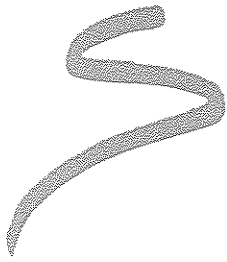
Machine Intelligence  
Research Institute

Financial Statements

For The Year Ended

December 31, 2014





*Snow, Bittleston  
& Company*

*Certified Public Accountants, LLP*

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors  
Machine Intelligence Research Institute  
Berkeley, California 94704

We have reviewed the accompanying Statement of Financial Position of the Machine Intelligence Research Institute as of December 31, 2014, and the related Statement of Activities, Functional Expenses and Cash Flow for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of organizational personnel. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the 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 the financial statements that are free from material misstatement whether due to fraud or error.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material misstatements that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles in the United States of America.

SNOW, BITTLESTON & COMPANY  
CERTIFIED PUBLIC ACCOUNTANTS, LLP

By:   
Susan G. Bittleston, CPA

October 1, 2015

MACHINE INTELLIGENCE RESEARCH INSTITUTE  
(A NON-PROFIT ORGANIZATION)  
STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2014

	2014
<b>ASSETS</b>	
<b>Current Assets</b>	
Cash in Bank and on hand	\$ 885,704
Investment held for sale - Cyro currency	13,996
Prepaid expenses	48,843
Accounts Receivable	307,971
Total Current Assets	1,256,514
<b>Fixed Assets</b>	
Furniture and Fixtures	10,180
Computer Equipment	6,759
Web Domain	8,170
Accumulated Depreciation	(9,497)
Total Fixed Assets	15,612
<b>Other Assets</b>	
Long Term Investments	1,434,324
Refundable Rent Deposit	10,277
Total Other Assets	1,444,601
<b>TOTAL ASSETS</b>	<b>\$ 2,716,727</b>

	2014
<b>LIABILITIES AND NET ASSETS</b>	
<b>Liabilities</b>	
Accounts Payable	\$ 24,084
Credit Cards Payable - Wells Fargo Bank	8,644
Total Liabilities	32,728
<b>Net Assets</b>	
Unrestricted	2,002,433
Temporarily Restricted	681,566
Total Net Assets	2,683,999
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 2,716,727</b>

See accompanying notes and independent accountant's review report

MACHINE INTELLIGENCE RESEARCH INSTITUTE  
(A NON-PROFIT ORGANIZATION)  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Restricted</u>	<u>Total</u>
<b>REVENUE AND OTHER SUPPORT</b>				
Contributions	\$ 1,131,017	\$ 83,470	\$ 23,071	\$ 1,237,558
Program Services	6,794	0	0	6,794
Miscellaneous Income	1,250	0	0	1,250
Loss on Sale of Investments	(129,328)	0	0	(129,328)
Dividend Income	9,044	0	0	9,044
Interest Income	2,530	0	0	2,530
Net Assets Appropriated to Program	(90,838)	90,838	0	0
Total Revenue and Other Support	930,469	174,308	23,071	1,127,848
<b>EXPENSES</b>				
Program Services	270,127	125,312	23,071	418,510
Management and General	480,755	0	0	480,755
Fund Raising	48,521	0	0	48,521
Total Expenses	799,403	125,312	23,071	947,786
<b>CHANGE IN NET ASSETS</b>	131,066	48,996	0	180,062
<b>NET ASSETS AT BEGINNING OF YEAR</b>	1,778,185	0	0	1,778,185
Change in accounting method 481(a)	31,270	632,570	0	663,840
Other Changes	61,912	0	0	61,912
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 2,002,433</u>	<u>\$ 681,566</u>	<u>\$ 0</u>	<u>\$ 2,683,999</u>

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MACHINE INTELLIGENCE RESEARCH INSTITUTE  
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STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Program Services</u>	<u>Management &amp; General</u>	<u>Fund Raising</u>	<u>Total</u>
Salaries	\$ 258,386	\$ 148,982	\$ 16,283	\$ 423,652
Payroll Taxes and Employee Benefits	22,027	49,752	1,399	73,178
Total Compensation	<u>280,413</u>	<u>198,734</u>	<u>17,682</u>	<u>496,830</u>
Advertising and Marketing	5,606	350	85	6,041
Conferences and Meetings	20,509	411	146	21,066
Depreciation	1,885	471	-	2,356
Fees				
Legal	-	107,971	-	107,971
Accounting	-	8,381	-	8,381
Management	1,695	8,519	-	10,214
Investment Management	-	2,838	-	2,838
Payroll Processing	-	778	-	778
Total Fees	<u>1,695</u>	<u>128,487</u>	<u>-</u>	<u>130,182</u>
Grants	20,000	-	-	20,000
Grants and Contributions Returned	23,071	-	-	23,071
Information Technology	5,259	5,620	33	10,912
Insurance	-	8,723	-	8,723
Meals and Entertainment	1,235	518	189	1,942
Miscellaneous	-	62	-	62
Occupancy	782	69,941	-	70,723
Office Expenses	2,225	37,437	474	40,136
Outside Professional Services	48,902	22,940	29,653	101,495
Taxes, Licenses and Registration	-	4,554	-	4,554
Travel	6,928	2,507	259	9,694
	<u>\$ 418,510</u>	<u>\$ 480,755</u>	<u>\$ 48,521</u>	<u>\$ 947,786</u>

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MACHINE INTELLIGENCE RESEARCH INSTITUTE  
(A NON-PROFIT ORGANIZATION)  
STATEMENT OF FINANCIAL POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2014

	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Increase in net assets	\$ 180,062
Adjustments to reconcile increase in net assets to net cash provided by operating activities	
Depreciation	2,356
Settlement recovery	14,316
Unrealized gains on investments	47,595
(Increase) Decrease in operating assets:	
Accounts Receivable	(10,258)
Prepaid Expenses	(6,683)
Security Deposit	(148)
Increase (Decrease) in operating liabilities:	
Accounts Payable	13,194
Credit Card Payable	50
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>240,484</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Payments for property and equipment	(7,800)
Short term investments, net	842,277
Purchases of long-term investments	(1,434,324)
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<b>(599,847)</b>
<b>NET INCREASE (DECREASE IN CASH AND CASH EQUIVALENTS)</b>	<b>(359,363)</b>
<b>BEGINNING CASH AND CASH EQUIVALENTS</b>	<b>1,245,067</b>
<b>ENDING CASH AND CASH EQUIVALENTS</b>	<b>\$ 885,704</b>

See accompanying notes and independent accountant's review report

THE MACHINE INTELLIGENCE RESEARCH INSTITUTE  
(A NONPROFIT ORGANIZATION)  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014  
(Reviewed)

NOTE A-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Machine Intelligence Research Institute was incorporated in 2000 under the State of Georgia. The Institute has been operating in California since 2004. The primary activity of the Institute is to ensure that the creation of smarter-than-human intelligence has a positive impact.

Basis of Accounting

The accounts of the Institute are maintained, and the financial statements are prepared on the accrual basis of accounting. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Use of Estimates

Management uses estimates and assumptions, such as depreciation, in preparing the financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results may differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Institute considers cash and cash equivalents to include all funds in banks and highly liquid investments with original maturity dates of less than three months. The carrying value of cash and cash equivalents approximates fair value because of the short maturity of those financial instruments.

Promises to Give

Contributions are recognized when the donor makes a promise to give to the Institute that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. As of December 31, 2014 \$2,002,433 were considered unrestricted and \$681,566 were considered temporarily restricted.



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The Institute uses the allowance method to determine uncollectible promises to give. Due to favorable past experience, no allowance for doubtful promises to give has been provided. Doubtful promises to give are expected to be immaterial in amount and will be expensed in the period it is certain that they are uncollectible.

Basis of Presentation

The Institute's financial statements are presented on the basis of unrestricted, temporarily restricted and permanently restricted net assets,

Unrestricted net assets represent unrestricted resources available to support the Institute's operations and temporarily restricted resources that become available for use by the Institute in accordance with the intentions of donors.

Temporarily restricted net assets represent contributions that are limited in use by the Institute in accordance with temporary donor imposed stipulations. These stipulations may expire with time or may be satisfied and removed by the actions of the Institute according to the terms of the contribution. Upon satisfaction of such stipulations, the associated net assets are released from temporarily restricted net assets and recognized as unrestricted net assets. If a restriction is fulfilled in the same fiscal year in which the contribution is received, the Institute classifies the support as unrestricted.

Permanently restricted net assets represent contributions to be held as investments in perpetuity as directed by the original donor.

Income Taxes

The Institute is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Institute's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Institute qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

The Institute's Forms 990, Return of Organization Exempt from Income Tax, for the years ending 2014, 2013, 2012 are subject to examination by the IRS, generally for three years after they were filed.

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Concentration of Credit Risk

The Institute's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, investments and virtual currency investments held.

The Institute places its cash and temporary cash investments with high credit quality institutions. The Institute has deposits held in two institutions in excess of the \$250,000 federally insured limit by Federal Deposit Insurance Corporation. As of December 31, 2014 the balances in these institutions exceeded the limits by approximately \$309,811.

The Institute holds investments consisting of publicly traded securities with high credit quality financial institutions. The Institute has deposits held in one institution in excess of the \$500,000 coverage provided by the Securities Investor Protection Corporation. As of December 31, 2014 the balance in this institution exceeded the limits by approximately \$434,332.

The virtual currencies are not backed by the government and deposits are not federally insured. At December 31, 2014, the risk of loss is \$13,996.

Investments

The Institute has investments consisting of mainly publicly traded securities which are classified as available-for-sale. Available for sale securities are recorded at fair value on the balance sheet, with the change in fair value during the period excluded from earnings and recorded as a component of other changes to net assets until realized unless management estimates the decline in fair market value to be other than temporary. Declines in fair market value that are other than temporary are included in earnings. Realized gains and losses, determined on the basis of the cost of specific securities sold, are included in earnings.

At December 31, 2014 the Institute had realized gains from publicly traded securities of \$9,117.

At December 31, 2014 The Institute had unrealized gains from publicly traded securities of \$64,918.

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Virtual Currency

The Institute has received various donations of virtual currency, consisting of Ripples “XRP” and Bitcoins. Both of these currencies are considered by the Internal Revenue Service as a digital representation of value that functions as a medium of exchange, a unit of account, and/or a store of value. In some environments, it operates like real currency, the coin and paper money of the United States or of any other country that is designated as legal tender, circulates, and is customarily used and accepted as a medium of exchange in the country of issuance. Since it does not have legal tender status in any jurisdiction, the Internal Revenue Service has ruled that virtual currency be treated as property and deposits are additionally not federally insured.

Since they are available to be traded much like an investment, they have been classified as other available-for-sale investments. Available for sale investments are recorded at fair value on the balance sheet, with the change in fair value during the period excluded from earnings and recorded as a component of other changes to net assets until realized unless management estimates the decline in fair market value to be other than temporary. Declines in fair market value that are other than temporary are included in earnings. Realized gains and losses, determined on the basis of the cost of specific securities sold, are included in earnings.

At December 31, 2014 the Institute had realized losses from virtual currency holdings of (\$138,446).

At December 31, 2014 The Institute had unrealized losses from virtual currency holdings of (\$17,323).

Property, Plant and Equipment and Depreciation

Property, plant and equipment are recorded at cost. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are recorded as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Institute reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Institute reclassifies temporarily restricted net assets to unrestricted net assets at that time. Purchases in excess of \$500 are capitalized. Property and equipment are

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depreciated using the straight-line and double declining balance methods using useful lives ranging from three years to 40 years.

Property and equipment consists of the following:

	<u>2014</u>
Furniture and Fixtures	\$10,180
Computer Equipment	6,759
Domains	8,170
Less accumulated depreciation	<u>(9,497)</u>
Net Cost	<u>\$15,612</u>

Depreciation expense for the year ended December 31, 2014 amounted to \$2,356

Functional Allocation of Expenses

The costs of providing the various programs, fund-raising and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the program services, management and fund-raising based on management's judgment.

Building Lease and Security Deposits

Operating Lease – The Institute leases its current office space located at 2030 Addison Street, Suite 300, Berkeley, CA. The Institute entered into a two year lease on July 1, 2013. This lease does not contain a renewal option. The Institute has paid a security deposit in the amount of \$10,273.63, which is classified under Other Assets. The following is the future lease commitments:

<u>Period</u>	<u>Rental Amount Per Month</u>
07/01/2013 – 06/30/2014	\$ 9,974
07/01/2014 – 06/30/2015	\$10,277

The Institute entered into a co-location agreement in 2013 with the Center for Applied Rationality (CFAR). CFAR agreed to occupy a percentage of the overall office with

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(Reviewed)

the Institute and share rental expense based on the amount of square footage occupied each month. The total amount paid to the lessor, based on this co-location agreement in 2014 amounted to \$56,425. Since the percentage of space occupied during the year may change, future rent expenses have been projected using the original lease obligation of the Institute.

Total Rent Expense for the Institute was and is projected to be:

<u>Years</u>	<u>Total Rent Expense</u>
2014	\$ 65,081
to 6/2015	\$ 61,662
Projected to 12/2015	\$ 61,662
Projected 2016	\$ 123,324
Projected 2017	\$ 123,324
Projected to 6/2018	<u>\$ 61,662</u>
	<u>\$ 496,715</u>

#### Advertising

The Institute uses advertising and marketing to promote its programs among the audiences it serves. The costs of advertising and marketing are expensed as incurred. During 2014, advertising and marketing costs totaled \$6,042.

#### Donated Services

No amounts have been reflected in the financial statements for donated services. The Institute generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Institute with carrying out their programs. Management estimates the fair value of those services to be approximately \$26,614 for the year ended December 31, 2014.

#### Changes in Accounting Principle

The Institute has changed its basis of accounting from cash basis to the accrual basis of accounting as of January 1, 2014. This change is preferred by management in order to conform with accounting principles generally accepted in the United States of America.

The Institute has determined that the effect of changing from cash basis to accrual basis of accounting has the following effects on unrestricted and total net assets.

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	Unrestricted Net Assets	Temporarily Restricted Net Assets	Total Net Assets
Balance December 31, 2013, as previously stated	\$ 1,778,185	\$ 0	\$ 1,778,185
Record value of promise to give	0	288,403	288,403
Record installment sale receivable	0	344,167	344,167
Record prepaid expenses	42,160	0	42,160
Record accrued expenses payable	<u>(10,889)</u>	<u>0</u>	<u>(10,889)</u>
Balance, December 31, 2013, as restated	<u>\$ 1,809,456</u>	<u>\$ 632,570</u>	<u>\$ 2,442,025</u>

Subsequent Events

Management has evaluated subsequent events through October 1, 2015, which is the date the financial statements were available to be issued.