

Financial Statements

Machine Intelligence Research Institute, Inc.
(a nonprofit organization)
Years Ended December 31, 2018 and 2017



Table of Contents

Independent Auditors' Report	3
Financial Statements	
Statements of Financial Position	5
Statements of Activities	6
Statements of Functional Expenses	7
Statements of Cash Flows	8
Notes to Financial Statements	9

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Machine Intelligence Research Institute, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018 and the related statements of activities, functional expenses, and cash flows 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 audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audits 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 risk 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 Machine Intelligence Research Institute, Inc., as of December 31, 2018 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Machine Intelligence Research Institute, Inc.'s 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 12, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Harris CPAs

Meridian, Idaho
November 6, 2019



MACHINE INTELLIGENCE RESEARCH INSTITUTE, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2018
With Comparative Totals as of December 31, 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 2,372,924	\$ 3,753,365
Investments	5,133,549	3,070,726
Contributions receivable	888,169	206,927
Prepaid expenses	<u>14,902</u>	<u>5,135</u>
Total Current Assets	8,409,544	7,036,153
Long-term grants receivable	219,000	219,000
Fixed assets, net	244,955	107,652
Intangible assets – cryptocurrencies	109,235	314,985
Security deposits	<u>144,086</u>	<u>10,277</u>
Total Assets	<u>\$ 9,126,820</u>	<u>\$ 7,688,067</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	<u>\$ 220,929</u>	<u>\$ 41,136</u>
Total Liabilities	220,929	41,136
Net Assets		
Without Donor Restrictions	8,481,808	7,607,982
With Donor Restrictions	<u>424,083</u>	<u>38,949</u>
Total Net Assets	<u>8,905,891</u>	<u>7,646,931</u>
Total Liabilities and Net Assets	<u>\$ 9,126,820</u>	<u>\$ 7,688,067</u>

See notes to financial statements.

MACHINE INTELLIGENCE RESEARCH INSTITUTE, INC.**STATEMENTS OF ACTIVITIES**

For the Year Ended December 31, 2018

With Comparative Totals for the Year ended December 31, 2017

	<u>2018</u>			<u>2017</u>
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>Total</u>
Income and Other Support				
Contributions	\$ 2,794,157	\$ 289,309	\$ 3,083,466	\$ 4,390,568
Grants and contracts	2,435,049	256,055	2,435,049	1,455,883
Investment income (loss)	(424,659)		(424,659)	319,435
Gain (loss) on intangible assets	(204,811)		(204,811)	318,290
Other income	30,465		30,465	16,603
	4,374,146	545,364	4,919,510	6,500,779
Net assets released from restrictions	<u>160,230</u>	<u>(160,230)</u>	<u>0</u>	<u>0</u>
Total Income and Other Support	4,534,376	385,134	4,919,510	6,500,779
Expenses				
Program services				
Research	2,676,135		2,676,135	1,332,601
Outreach	<u>60,122</u>		<u>60,122</u>	<u>198,985</u>
Total Program Services	2,736,257	0	2,736,257	1,531,586
Supporting services				
Management and general	900,793		900,793	501,025
Fundraising	<u>23,500</u>		<u>23,500</u>	<u>90,556</u>
Total Supporting Services	<u>924,293</u>	<u>0</u>	<u>924,293</u>	<u>591,581</u>
Total Expenses	<u>3,660,550</u>	<u>0</u>	<u>3,660,550</u>	<u>2,123,167</u>
Change in Net Assets	873,826	385,134	1,258,960	4,377,612
Net Assets				
Beginning of Year	<u>7,607,982</u>	<u>38,949</u>	<u>7,646,931</u>	<u>3,269,319</u>
End of Year	<u>\$ 8,481,808</u>	<u>\$ 424,083</u>	<u>\$ 8,905,891</u>	<u>\$ 7,646,931</u>

See notes to financial statements.

MACHINE INTELLIGENCE RESEARCH INSTITUTE, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2018

With Comparative Totals for the Year Ended December 31, 2017

	<u>Program Services</u>		<u>Management & General</u>	<u>Fundraising</u>	<u>2018 Total</u>	<u>2017 Total</u>
	<u>Research</u>	<u>Outreach</u>				
Employee salaries	\$ 1,680,123	\$ 19,092	\$ 190,924	\$ 19,092	\$ 1,909,231	\$ 1,138,932
Contract services	324,722	9,756	148,089	300	482,867	366,550
Conferences	262,571	3,332	7,665		273,568	37,412
Rent	6,575		205,944		212,519	108,781
Employee benefits	175,642	1,996	19,960	1,996	199,594	154,134
Office expense	9,978	4,668	162,267	506	177,419	98,624
Payroll taxes	129,780	1,475	14,747	1,475	147,477	97,087
Grants to others	54,000	10,900	20,000		84,900	0
Depreciation	12,330		69,868		82,198	43,317
Insurance			23,981		23,981	21,142
Maintenance			17,392		17,392	17,537
Travel	8,831	799	5,252	90	14,972	13,240
Meals and entertainment	583		449	41	1,073	0
Miscellaneous expenses	11,000	8,104	14,255		33,359	26,411
Total	<u>\$ 2,676,135</u>	<u>\$ 60,122</u>	<u>\$ 900,793</u>	<u>\$ 23,500</u>	<u>\$ 3,660,550</u>	<u>\$ 2,123,167</u>

See notes to financial statements.

MACHINE INTELLIGENCE RESEARCH INSTITUTE, INC.
STATEMENTS OF CASH FLOWS
For the Year Ended December 31, 2018
With Comparative Totals for the Year Ended December 31, 2017

	<u>2018</u>	<u>2017</u>
Cash Flow From Operating Activities		
Change in net assets	\$ 1,258,960	\$ 4,377,612
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Donated intangible asset	(493,164)	(1,784,508)
Depreciation	82,198	43,317
Unrealized (gain) loss on investments	580,599	(250,272)
Realized (gain) loss on investments	(9,888)	(13,357)
Unrealized (gain) loss on intangible assets	208,290	(312,610)
Realized (gain) loss on intangible assets	(3,399)	(5,680)
Changes in operating assets and liabilities:		
Gain on sale of equipment	0	(128)
Contributions receivable	(681,242)	(55,778)
Prepaid expense	(9,767)	9,499
Security deposits	(133,809)	0
Accounts payable	179,793	(4,242)
	<u>978,571</u>	<u>2,003,853</u>
Net Cash Provided (Used) by Operating Activities		
Cash Flow From Investing Activities		
Proceeds from sale of investments	1,233,396	535,922
Proceeds from sale of equipment	0	820
Proceeds from sale of intangible asset	494,023	1,790,144
Purchase of investments	(3,866,930)	(1,599,513)
Fixed asset purchases	(219,501)	(57,117)
	<u>(2,359,012)</u>	<u>670,256</u>
Net Cash Provided (Used) by Investing Activities		
Net Change in Cash and Cash Equivalents	(1,380,441)	2,674,109
Cash and Cash Equivalents - Beginning of Year	<u>3,753,365</u>	<u>1,079,256</u>
Cash and Cash Equivalents - End of Year	<u>\$ 2,372,924</u>	<u>\$ 3,753,365</u>

See notes to financial statements.

MACHINE INTELLIGENCE RESEARCH INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

Note A – Summary of Significant Accounting Policies

Nature of Organization

Machine Intelligence Research Institute, Inc., (the Organization) is a nonprofit corporation registered in Georgia, and operating in California. The objective of the Organization, to ensure that the creation of smarter-than-human intelligence has a positive impact on society, is accomplished through continued research and study of the mathematical underpinnings of intelligent behavior, in particular relation to artificial intelligence.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation

The Organization reports net assets and revenues, expenses, gains and losses are classified according to two classes of net assets: with donor restrictions and without donor restrictions. Net assets without donor restrictions are available for use at the discretion of the Board of Directors and/or management for general operating purposes. Net asset with donor restrictions consist of assets whose use is limited by donor-imposed, time and/or purpose restrictions.

Accounting Pronouncements Adopted

For the year ended December 31, 2018, the Organization adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance and cash flows. Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service; and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. This guidance also enhances disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity and expenses by both their natural and functional classification.

Implementation of the new standard did not require reclassification or restatement of any opening balances related to the prior period. Net assets presented as temporary or permanently restricted assets are now reported as net assets with donor restrictions. Net assets reported as unrestricted are now reported as net assets without donor restrictions.

MACHINE INTELLIGENCE RESEARCH INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

Note A – Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted 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 contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash includes cash on hand as well as checking accounts with financial institutions. The Organization considers all short-term investments purchased with maturity of three months or less to be cash equivalents.

Marketable Securities and Investments

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. Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met (either stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

Concentration of Credit Risk and Income

Financial instruments that potentially subject the Organization to significant concentrations of credit risk consist of cash and investments and are held at a number of financial institutions. Accounts at certain financial institutions are insured by the Federal Deposit Insurance Corporation for up to \$250,000. At December 31, 2018 and 2017 the Organization had an uninsured cash balances of \$2,099,737 and \$2,429,412, respectively. Investment accounts are insured by the Securities Investor Protection Corporation for up to \$500,000. At December 31, 2018 and 2017 the Organization had uninsured investments of \$4,451,212 and \$2,587,721, respectively.

For the years ended December 31, 2018 and 2017, the Organization had 6 donors that comprised 67% and 6 donors that comprised 60% of total income, respectively.

MACHINE INTELLIGENCE RESEARCH INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

Note A – Summary of Significant Accounting Policies (Continued)

Fair Value

The Organization uses fair value reporting for financial assets and liabilities. A hierarchy for reporting the reliability of input measurements used to assess fair value for all assets and liabilities. Fair value is defined as the selling price that would be received for an asset, or paid to transfer a liability, in the principal or most advantageous market on the measurement date. The hierarchy established, prioritizes fair value measurements based on the types of inputs used in the valuation technique. Certain financial instruments are carried at cost on the balance sheet, which approximates fair value due to their short term, highly liquid nature.

Fixed Assets

Equipment and furniture is stated at cost or, if donated, at the estimated fair market value at the date of donation. Expenditures for major renewals and betterments that extend the useful lives of furniture and equipment are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives for amounts over \$500 of the related assets, which range from three to fifteen years. Accumulated depreciation as of December 31, 2018 and 2017 was \$166,962 and \$84,765, respectively.

Intangible Assets

The Organization holds cryptocurrencies that it regularly receives through donations. These donations are recorded at their fair market value when they are received by the Organization. The value of the cryptocurrencies is subsequently measured and adjusted based on the published translation price for each period reported.

Contributions, Grants, and Donor Imposed Restrictions

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted by the donor for specific purposes are reported as contributions with donor restrictions that increases that net asset class. When donor restrictions expire, that is, when a time restriction ends and/or a purpose restriction is fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restriction.

Unconditional contributions and grants that are due in subsequent years are reflected as long-term. The Organization had one grant receivable considered long term in nature. Any discount on the receivable has been determined insignificant by management and not recorded. The Organization uses the allowance method to determine uncollectible receivables. No allowance has been provided based on Management's analysis of specific receivables and based on prior years' experience.

MACHINE INTELLIGENCE RESEARCH INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

Note A – Summary of Significant Accounting Policies (Continued)

Advertising

The Organization expenses advertising as costs are incurred. Advertising expenses totaled \$19,127 and \$5,802 for the years ended December 31, 2018 and 2017, respectively.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Certain categories of expenses are attributable to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. The expenses that are allocated are employee salaries, employee benefits, and payroll taxes, which are allocated on the basis of estimates of time and effort; depreciation is allocated based on the associated fixed assets used within each particular program or function. Management has allocated rent and other office costs to only the management and general function as the management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Income Taxes

The Organization is a nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and comparable state law. Accordingly, no provision for income taxes is made in the financial statements.

Uncertain Tax Positions

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of that position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for fiscal year 2018 or 2017. The Organization files Form 990 in the U.S. federal jurisdiction. The Organization is generally no longer subject to examination by the Internal Revenue Service for years before 2015.

MACHINE INTELLIGENCE RESEARCH INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS

Note A – Summary of Significant Accounting Policies (Continued)

Presentation of Certain Taxes

The Organization collects various taxes from customers and remits these amounts to applicable taxing authorities. The Organization's accounting policy is to exclude these taxes from income and program expenses.

Comparative Data

The amounts shown for the year ended December 31, 2017 in the accompanying financial statements are included to provide a basis for comparison with 2018 and present summarized totals only. Accordingly, the 2017 totals are not intended to present all information necessary for a fair presentation in conformity with accounting principles generally accepted in the United States of America. Such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2017, from which the summarized information was derived.

Subsequent Events

The Organization has evaluated subsequent events through November 6, 2019, which is the date the financial statements were available to be issued.

MACHINE INTELLIGENCE RESEARCH INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

Note B – Liquidity and Availability

The Organization’s financial assets available within one year of the statement of financial position date for general expenditures are as follows:

Cash and cash equivalents	\$	2,372,924
Investments		5,133,549
Contributions Receivable		888,169
Cryptocurrencies		<u>109,235</u>
Total financial assets available within one year		8,503,877
Less amounts unavailable for general expenditures within one year, due to:		
Restricted by donors with purpose restrictions – AI Impact Program		(328,083)
Restricted by donors with purpose restrictions – AI Safety Retraining Program		<u>(96,000)</u>
Total amounts unavailable for general expenditures within one year		<u>(424,083)</u>
Total financial assets available within one year after restriction	\$	<u>8,079,794</u>

As part of the Organization’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. At December 31, 2018, all net assets with donor restrictions are available for payment of any major expenditures incurred, except for contributions receivable which are available when the receivable is collected which is expected within one year of the statement of financial position date.

Note C – Fair value of Assets and Liabilities

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.
Level 2	Inputs to the valuation methodology include 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 instrument.

MACHINE INTELLIGENCE RESEARCH INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS

Note C – Fair value of Assets and Liabilities (Continued)

A financial instrument’s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Equity securities and cryptocurrencies are valued at unadjusted quoted prices and are considered Level 1. The valuation of the investment held in the Silicon Valley Community Foundation (SVCF) is part of a larger investment pool. The investment is shown at net asset value, the Organization’s pro rata share of the aggregate fair value of all assets contained in the fund. The fund of funds is considered a Level 3 asset. Additionally, the investment is not part of a long term endowment and can be liquidated at any time by the Organization. As a result, it has been shown as an investment.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Organization’s investments at fair value measured on a recurring basis as of December 31:

	Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
December 31, 2018				
Equity securities	\$ 4,841,977	\$ 4,841,977	\$ 0	\$ 0
Cryptocurrencies	109,235	109,235		
Fund of Funds – SVCF	291,572			291,572
Total	\$ 5,242,784	\$ 4,951,212	\$ 0	\$ 291,572
	Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
December 31, 2017				
Equity securities	\$ 2,772,736	\$ 2,772,736	\$ 0	\$ 0
Cryptocurrencies	314,985	314,985		
Fund of Funds – SVCF	297,990			297,990
Total	\$ 3,385,711	\$ 3,087,721	\$ 0	\$ 297,990

MACHINE INTELLIGENCE RESEARCH INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS

Note C – Fair value of Assets and Liabilities (Continued)

The table below sets forth a summary of changes in the fair value of the Organization’s investments valued at net asset value as of December 31:

	<u>2018</u>	<u>2017</u>
Beginning Balance	\$ 297,990	\$ 277,318
Interest and dividend income	3,402	2,871
Net realized gain (loss)	10,071	13,260
Net unrealized gain (loss)	(15,697)	8,180
Investment management fees	(1,207)	(771)
Support fees	<u>(2,987)</u>	<u>(2,868)</u>
Ending Balance	<u>\$ 291,572</u>	<u>\$ 297,990</u>

Note D – Investments

Investments as of December 31, are summarized as follows:

	<u>2018</u>	<u>2017</u>
Cost	\$ 5,382,326	\$ 2,738,904
Unrealized gain/(loss)	<u>(248,777)</u>	<u>331,822</u>
Total	<u>\$ 5,133,549</u>	<u>\$ 3,070,726</u>

Investment income consists of the following for the years ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 146,052	\$ 55,806
Realized gain	9,888	13,357
Unrealized gain/(loss)	<u>(580,599)</u>	<u>250,272</u>
Total	<u>\$ (424,659)</u>	<u>\$ 319,435</u>

MACHINE INTELLIGENCE RESEARCH INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS

Note E – Fixed Assets

As of December 31, fixed assets consisted of the following:

	<u>2018</u>	<u>2017</u>
Leasehold improvements	\$ 256,804	\$ 88,676
Furniture & fixtures	68,153	34,805
Computer equipment	78,790	60,766
Intangible assets: domains	<u>8,170</u>	<u>8,170</u>
Fixed Assets Total	411,917	192,417
Accumulated depreciation	<u>(166,962)</u>	<u>(84,765)</u>
Total	<u>\$ 244,955</u>	<u>\$ 107,652</u>

Note F – Intangible Assets – Cryptocurrencies

The Organization receives donations in the form of cryptocurrencies from a number of donors. The cryptocurrencies and their values held by the Organization at December 31, are listed below:

	<u>2018</u>	<u>2017</u>
Sellar Lumens	\$ 109,122	\$ 314,983
Ripple	<u>113</u>	<u>2</u>
Total	<u>\$ 109,235</u>	<u>\$ 314,985</u>

During the years ended December 31, 2018 and 2017, the Organization received \$493,163 and \$1,784,508 respectively, in cryptocurrency donations. As shown in the Statement of Cash Flows a significant amount of these cryptocurrencies were sold and converted to cash and investments. The value of these assets fluctuates frequently based on market conditions. No material declines in these asset's values were noted between December 31, 2018, and November 6, 2019, the date of financial statement issuance.

Cryptocurrencies as of December 31, are summarized as follows:

	<u>2018</u>	<u>2017</u>
Cost	\$ 4,139	\$ 1,599
Unrealized gain/(loss)	<u>105,096</u>	<u>313,386</u>
Total	<u>\$ 109,235</u>	<u>\$ 314,985</u>

MACHINE INTELLIGENCE RESEARCH INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS

Note F – Intangible Assets – Cryptocurrencies (Continued)

Change in fair value of cryptocurrencies consists of the following for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Unrealized gain/(loss)	\$ (208,290)	\$ 312,610
Donations	<u>2,540</u>	<u>44</u>
Total	<u>\$ (205,750)</u>	<u>\$ 312,654</u>

Note G – Net Assets

The Organization reports net assets according to two classes of net assets: with donor restrictions and without donor restrictions. Net assets without donor restrictions are available for use at the discretion of the Board of Directors and/or management for general operating purposes. Net asset with donor restrictions consist of assets whose use is limited by donor-imposed, time and/or purpose restrictions. All net assets with donor restrictions are restricted for the purpose of use within the program for which the grants or donations were received.

The detail of the Organization’s net asset categories at December 31, is as follows:

	<u>2018</u>	<u>2017</u>
Without donor restrictions:		
Net assets without donor restrictions	\$ 8,481,808	\$ 7,607,982
With donor restrictions:		
AI Impacts	328,083	38,949
AI Safety Retraining	<u>96,000</u>	<u>0</u>
Total with donor restrictions	<u>424,083</u>	<u>38,949</u>
Total net assets	<u>\$ 8,905,891</u>	<u>\$ 7,646,931</u>

MACHINE INTELLIGENCE RESEARCH INSTITUTE, INC.
NOTES TO FINANCIAL STATEMENTS

Note H – Operating Lease

The Organization had an operating lease agreement (Addison Lease) originally expiring November 30, 2018. The Organization entered into an agreement with the landlord to continue renting the space on a month-to-month basis until the Organization’s new office space was ready for occupation. On October 15, 2018, the Organization signed a new 25 month lease (Bancroft Lease). The lease commenced on November 1, 2018, however the space was not ready for occupation on the commencement date as the Organization began making tenant improvements on the space. The performance of the tenant improvements delayed occupation of the space until after the end of 2018.

For both locations, the Organization has a signed agreement to sublease a portion of the office space to another tenant. Rental expense under the operating lease was \$297,814, offset by rental income from a sublease agreement for shared workspace of \$92,158, for a total rental expense from operating leases of \$205,656 for the year ended December 31, 2018. The future minimum lease payments under the agreement, without sublease adjustments, are as follows for the years ending December 31:

2019	\$	537,912
2020		<u>506,730</u>
Total	\$	<u>1,044,642</u>

The future minimum income under the sublease agreement are as follows for the years ending December 31:

2019	\$	145,236
2020		<u>136,817</u>
Total	\$	<u>282,054</u>