Harris & Co. PLLC
CERTIFIED PUBLIC ACCOUNTANTS

Machine Intelligence Research Institute, Inc.
(a nonprofit organization)

Financial Statements

December 31, 2016

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Harris & Co. PLLC
CERTIFIED PUBLIC ACCOUNTANTS

Helping our clients make sense of a changing and complex world

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Machine Intelligence Research Institute.
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, 2016 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.

2289 S. Bonito Way, Ste 100
Meridian, Idaho 83642

208 333-8965
208 333-8966 FAX

www.harriscpas.com

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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, 2016 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.

Harris & Co. PLLC

Meridian, Idaho
November 15, 2017

MACHINE INTELLIGENCE RESEARCH INSTITUTE, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2016

ASSETS

Current Assets	
Cash and cash equivalents	$ 1,079,256
Investments	1,745,837
Contributions receivable	151,149
Prepaid expenses	14,634
Total Current Assets	2,990,876
Other Assets	
Grant receivable	229,277
Fixed assets, net	94,544
Total Assets	$ 3,314,697

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts payable	$ 45,378
Total Current Liabilities	45,378
Net Assets	
Unrestricted	3,123,371
Temporarily restricted	145,948
Total Net Assets	3,269,319
Total Liabilities and Net Assets	$ 3,314,697

See notes to financial statements.

MACHINE INTELLIGENCE RESEARCH INSTITUTE, INC.
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Total
Revenue and Other Support			
Contributions	$ 1,616,050	$ 43,199	$ 1,659,249
Grants and contracts	535,103	83,309	618,412
Other income	24,501	0	24,501
Investment income	148,245	0	148,245
	2,323,899	126,508	2,450,407
Net assets released from restrictions	407,358	(407,358)	0
Total Revenue and Other Support	2,731,257	(280,850)	2,450,407
Expenses			
Program services			
Research	1,149,941	0	1,149,941
Outreach	105,570	0	105,570
Total Program Services	1,255,511	0	1,255,511
Supporting services			
Management and general	440,094	0	440,094
Fundraising	69,133	0	69,133
Total Supporting Services	509,227	0	509,227
Total Expenses	1,764,738	0	1,764,738
Change in Net Assets	966,519	(280,850)	685,669
Net Assets			
Beginning of Year	2,156,852	426,798	2,583,650
End of Year	$ 3,123,371	$ 145,948	$ 3,269,319

See notes to financial statements.

MACHINE INTELLIGENCE RESEARCH INSTITUTE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2016

	Program Services		Management		
	Research	Outreach	& General	Fundraising	Total
Employee salaries	$ 585,726	$ 69,485	$ 211,168	$ 44,439	$ 910,818
Contract services	230,652	834	69,939		301,425
Employee benefits	74,250	6,816	28,416	4,464	113,946
Rent	68,639	6,301	26,269	4,126	105,335
Office expense	54,540	5,007	20,875	3,279	83,701
Payroll taxes	48,354	6,063	18,227	3,917	76,561
Travel	29,361	5,751	9,559	7,320	51,991
Conferences	31,997	2,887	5,513		40,397
Depreciation			29,429		29,249
Miscellaneous expenses	15,247	1,400	5,835	916	23,398
Insurance	11,175	1,026	4,276	672	17,149
Bad debt			5,600		5,600
Maintenance			5,168		5,168
Total	$ 1,149,941	$ 105,570	$ 440,092	$ 69,133	$ 1,764,738

See notes to financial statements.

MACHINE INTELLIGENCE RESEARCH INSTITUTE, INC.
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2016

Cash Flow From Operating Activities		
Change in net assets	$	685,669
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation		29,249
Unrealized (gain) loss on Investments		(91,555)
Realized (gain) loss on Investments		(10,247)
Changes in operating assets and liabilities:		
Receivables		(28,439)
Prepaid expense		32,385
Accounts payable		(37,301)
Net Cash Provided (Used) by Operating Activities		579,763
Cash Flow From Investing Activities		
Proceeds from sale of investments		272,046
Purchase of investments		(54,861)
Equipment purchases		(104,361)
Net Cash Provided (Used) by Investing Activities		112,824
Net Change in Cash and Cash Equivalents		692,587
Cash and Cash Equivalents - Beginning of Year		386,669
Cash and Cash Equivalents - End of Year	$	1,079,256

See notes to financial statements.

Note A – Summary of Significant Accounting Policies

Nature of Organization

Machine Intelligence Research Institute, (the Organization) is a Georgia nonprofit corporation operating in California researching and studying the mathematical underpinnings of intelligent behavior, in particular relation to artificial intelligence. The objective of the organization's research is to ensure that the creation of smarter-than-human intelligence has a positive impact.

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 information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Use of Estimates

The Organization uses estimates and assumptions in preparing financial statements. Those 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 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.

Concentration of Credit Risk and Income

Financial instruments that potentially subject the Organization to significant concentrations of credit risk consist of cash and investments. Accounts at these financial institutions are insured by the Federal Deposit Insurance Corporation for up to $250,000. At December 31, 2016 the Organization had an uninsured cash balance of $613,310. Investment accounts are insured by the Securities Investor Protection Corporation for up to $500,000. At December 31, 2016 the Organization had uninsured investments of $981,572. For the year ended December 31, 2016, the Company had 4 donors that comprised 46% of total income.

Note A – Summary of Significant Accounting Policies (Continued)

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.

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.

Contributions and Grants

The Organization recognizes all contributed support received as income in the period received. Contributed support is reported as unrestricted or as restricted depending on the existence of donor stipulations that limit the use of the support. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

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.

Note A – Summary of Significant Accounting Policies (Continued)

Fixed Assets

Fixed assets are 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, 2016 was $22,320.

Advertising

The Organization expenses advertising as costs are incurred. Advertising expenses totaled $4,391 for the year ended December 31, 2016.

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 2016. 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 2013.

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.

Note A – Summary of Significant Accounting Policies (Continued)

Functional Allocation of Expenses

The costs of providing the program have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited. General and administrative 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.

Subsequent Events

The Organization has evaluated subsequent events through November 15, 2017, which is the date the financial statements were available to be issued.

Note B – Investments

Investments as of December 31, 2016 are summarized as follows:

Cost	$	1,664,287
Unrealized gain		81,550
Fair value	$	1,745,837

Investment income consists of the following for the year ended December 31, 2016:

Interest and dividends	$	46,443
Realized gain		10,247
Unrealized gain		91,555
	$	148,245

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.

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 are valued at unadjusted quoted prices and 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.

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

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, 2016.

		Fair Value Measurements Using		
	Total	**Level 1**	**Level 2**	**Level 3**
Equity securities	$ 1,468,519	$ 1,468,519	$ 0	$ 0
Fund of Funds – SVCF	277,318			277,318
Total	$ 1,745,837	$ 1,468,519	$ 0	$ 277,318

The table below sets forth a summary of changes in the fair value of the Organization's investments valued at Level 3 as of December 31, 2016:

Beginning Balance	$ 268,875
Interest and Dividend Income	2,460
Net Realized Gain (Loss)	2,647
Net Unrealized Gain (Loss)	7,018
Investment Management Fees	(964)
Support Fees	(2,718)
Ending Balance	$ 277,318

Note D – Fixed Assets

As of December 31, 2016, fixed assets consisted of the following:

Leasehold Improvements	$ 73,192
Furniture & Fixtures	30,352
Computer Equipment	24,385
Domain name	8,170
Accumulated Depreciation	(41,555)
Total	$ 94,544

Note E – Temporarily Restricted Net Assets

At December 31, 2016, temporarily restricted net assets are comprised of contributions given for use in particular programs, activities or time period. All restrictions are for specific research activities related to the Organization's mission.

Note F – Operating Lease

The Organization has an operating lease agreement for space at 2030 Addison Street, FL 7, Berkeley, California expiring November 30, 2018. The lease commenced on July 1, 2013. Currently, the organization subleases a portion of the office space to another tenant, however the Institute does not have a monthly lease agreement with the tenant. Rental expense under the operating lease was $189,335, offset by rental income of $83,999, for a total rental expense of $105,335 for the year ended December 31, 2016.

The future minimum lease payments under the agreement, without sublease adjustments, are as follows for the years ending December 31:

2017	$ 195,037
2018	183,574
	$ 378,611