

# Financial Statements

Machine Intelligence Research Institute, Inc.  
(a nonprofit organization)  
Years Ended December 31, 2017 and 2016



## **Table of Contents**

---

<b>Independent Auditors' Report</b>	3
<b>Financial Statements</b>	
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, 2017 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, 2017 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 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 15, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Harris CPAs*

Meridian, Idaho  
October 12, 2018



**MACHINE INTELLIGENCE RESEARCH INSTITUTE, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**December 31, 2017**  
**With Comparative Totals as of December 31, 2016**

---

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
<b>Assets</b>		
Cash and cash equivalents	\$ 3,753,365	\$ 1,079,256
Investments	3,070,726	1,743,506
Contributions receivable	206,927	151,149
Prepaid expenses	<u>5,135</u>	<u>14,634</u>
Total Current Assets	7,036,153	2,988,545
<b>Other Assets</b>		
Grant receivable	229,277	229,277
Fixed assets, net	107,652	94,544
Intangible assets	<u>314,985</u>	<u>2,331</u>
Total Assets	<u>\$ 7,688,067</u>	<u>\$ 3,314,697</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable	<u>\$ 41,136</u>	<u>\$ 45,378</u>
Total Liabilities	41,136	45,378
<b>Net Assets</b>		
Unrestricted	7,607,982	3,123,371
Temporarily restricted	<u>38,949</u>	<u>145,948</u>
Total Net Assets	<u>7,646,931</u>	<u>3,269,319</u>
Total Liabilities and Net Assets	<u>\$ 7,688,067</u>	<u>\$ 3,314,697</u>

See notes to financial statements.

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

For the Year Ended December 31, 2017

With Comparative Totals for the Year ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2017 Total</u>	<u>2016 Total</u>
Income and Other Support				
Contributions	\$ 4,364,985	\$ 25,583	\$ 4,390,568	\$ 1,659,249
Grants and contracts	1,455,883		1,455,883	618,412
Investment income	319,435		319,435	149,253
Gain/(loss) on intangible assets	318,290		318,290	(1,008)
Other income	<u>16,603</u>	<u></u>	<u>16,603</u>	<u>24,501</u>
	6,475,196	25,583	6,500,779	2,450,407
Net assets released from restrictions	<u>132,582</u>	<u>(132,582)</u>	<u>0</u>	<u>0</u>
Total Income and Other Support	6,607,778	(106,999)	6,500,779	2,450,407
Expenses				
Program services				
Research	1,332,601		1,332,601	1,149,941
Outreach	<u>198,985</u>	<u></u>	<u>198,985</u>	<u>105,570</u>
Total Program Services	1,531,586	0	1,531,586	1,255,511
Supporting services				
Management and general	501,025		501,025	440,094
Fundraising	<u>90,556</u>	<u></u>	<u>90,556</u>	<u>69,133</u>
Total Supporting Services	<u>591,581</u>	<u>0</u>	<u>591,581</u>	<u>509,227</u>
Total Expenses	<u>2,123,167</u>	<u>0</u>	<u>2,123,167</u>	<u>1,764,738</u>
Change in Net Assets	4,484,611	(106,999)	4,377,612	685,669
Net Assets				
Beginning of Year	<u>3,123,371</u>	<u>145,948</u>	<u>3,269,319</u>	<u>2,583,650</u>
End of Year	<u>\$ 7,607,982</u>	<u>\$ 38,949</u>	<u>\$ 7,646,931</u>	<u>\$ 3,269,319</u>

See notes to financial statements.

# MACHINE INTELLIGENCE RESEARCH INSTITUTE, INC.

## STATEMENTS OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2017

With Comparative Totals for the Year Ended December 31, 2016

	<u>Program Services</u>		<u>Management &amp; General</u>	<u>Fundraising</u>	<u>2017 Total</u>	<u>2016 Total</u>
	<u>Research</u>	<u>Outreach</u>				
Employee salaries	\$ 794,491	\$ 151,107	\$ 124,499	\$ 68,835	\$ 1,138,932	\$ 910,818
Contract services	260,132	7,480	98,938		366,550	301,425
Employee benefits	100,188	9,248	38,533	6,165	154,134	113,946
Rent	70,708	6,527	27,195	4,351	108,781	105,335
Office expense	6,566	203	91,241	614	98,624	83,701
Payroll taxes	67,811	12,579	11,052	5,645	97,087	76,561
Depreciation			43,317		43,317	29,249
Conferences	26,774	2,220	5,846	2,572	37,412	40,397
Miscellaneous expenses	100	5,853	20,158	300	26,411	23,398
Insurance			21,142		21,142	17,149
Maintenance			17,537		17,537	5,168
Travel	5,831	3,768	1,567	2,074	13,240	51,991
Bad Debt					0	5,600
Total	<u>\$ 1,332,601</u>	<u>\$ 198,985</u>	<u>\$ 501,025</u>	<u>\$ 90,556</u>	<u>\$ 2,123,167</u>	<u>\$ 1,764,738</u>

See notes to financial statements.

**MACHINE INTELLIGENCE RESEARCH INSTITUTE, INC.**  
**STATEMENTS OF CASH FLOWS**  
**For the Year Ended December 31, 2017**  
**With Comparative Totals for the Year Ended December 31, 2016**

---

	<u>2017</u>	<u>2016</u>
<b>Cash Flow From Operating Activities</b>		
Change in net assets	\$ 4,377,612	\$ 685,669
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Donated intangible asset	(1,784,508)	(1,555)
Depreciation	43,317	29,249
Unrealized (gain) loss on investments	(250,272)	(78,612)
Realized (gain) loss on investments	(13,357)	(24,198)
Unrealized (gain) loss on intangible assets	(312,610)	(776)
Realized (gain) loss on intangible assets	(5,680)	3,341
Changes in operating assets and liabilities:		
Gain on sale of equipment	(128)	0
Contributions receivable	(55,778)	(28,439)
Prepaid expense	9,499	32,385
Accounts payable	<u>(4,242)</u>	<u>(37,301)</u>
Net Cash Provided (Used) by Operating Activities	2,003,853	579,763
<b>Cash Flow From Investing Activities</b>		
Proceeds from sale of investments	535,922	253,749
Proceeds from sale of equipment	820	0
Proceeds from sale of intangible asset	1,790,144	18,297
Purchase of investments	(1,599,513)	(54,861)
Equipment purchases	<u>(57,117)</u>	<u>(104,361)</u>
Net Cash Provided (Used) by Investing Activities	<u>670,256</u>	<u>112,824</u>
Net Change in Cash and Cash Equivalents	2,674,109	692,587
<b>Cash and Cash Equivalents - Beginning of Year</b>	<u>1,079,256</u>	<u>386,669</u>
<b>Cash and Cash Equivalents - End of Year</b>	<u>\$ 3,753,365</u>	<u>\$ 1,079,256</u>

See notes to financial statements.



# MACHINE INTELLIGENCE RESEARCH INSTITUTE

## 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 two classes of net assets: unrestricted net assets, temporarily restricted net assets.

#### *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.

## MACHINE INTELLIGENCE RESEARCH INSTITUTE

### NOTES TO FINANCIAL STATEMENTS

---

#### Note A – Summary of Significant Accounting Policies (Continued)

##### *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, 2017 and 2016 the Organization had an uninsured cash balances of \$2,429,412 and \$613,310, respectively. Investment accounts are insured by the Securities Investor Protection Corporation for up to \$500,000. At December 31, 2017 and 2016 the Organization had uninsured investments of \$2,587,721 and \$981,572, respectively.

For the years ended December 31, 2017 and 2016, the Company had 6 donors that comprised 60% and 4 donors that comprised 46% of total income, respectively.

##### *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, 2017 and 2016 was \$84,765 and \$41,555.

##### *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.

## **MACHINE INTELLIGENCE RESEARCH INSTITUTE**

### **NOTES TO FINANCIAL STATEMENTS**

---

#### **Note A – Summary of Significant Accounting Policies (Continued)**

##### *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.

##### *Advertising*

The Organization expenses advertising as costs are incurred. Advertising expenses totaled \$5,802 \$4,391 for the years ended December 31, 2017 and 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 year 2017 or 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 2014.

## **MACHINE INTELLIGENCE RESEARCH INSTITUTE**

### **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.

##### *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.

##### *Comparative Data*

The amounts shown for the year ended December 31, 2016 in the accompanying financial statements are included to provide a basis for comparison with 2017 and present summarized totals only. Accordingly, the 2016 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, 2016, from which the summarized information was derived.

##### *Subsequent Events*

The Organization has evaluated subsequent events through October 12, 2018, which is the date the financial statements were available to be issued.

**MACHINE INTELLIGENCE RESEARCH INSTITUTE**  
**NOTES TO FINANCIAL STATEMENTS**

---

**Note B – Investments**

Investments as of December 31, are summarized as follows:

	<u>2017</u>	<u>2016</u>
Cost	\$ 2,738,904	\$ 1,661,956
Unrealized gain	<u>331,822</u>	<u>81,550</u>
Total	<u>\$ 3,070,726</u>	<u>\$ 1,743,506</u>

Investment income consists of the following for the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 55,806	\$ 46,443
Realized gain	13,357	24,198
Unrealized gain	<u>250,272</u>	<u>78,612</u>
Total	<u>\$ 319,435</u>	<u>\$ 149,253</u>

**Note C – Intangible Assets – Cryptocurrencies**

The Organization holds cryptocurrencies. The cryptocurrencies and their values at December 31, are listed below:

	<u>2017</u>	<u>2016</u>
Sellar Lumens	<u>\$ 314,985</u>	<u>\$ 2,331</u>

The value of these assets fluctuates frequently based on market conditions. No material declines in these asset's values were noted between December 31, 2017, and October 12, 2018, the date of financial statement issuance.

**MACHINE INTELLIGENCE RESEARCH INSTITUTE**  
**NOTES TO FINANCIAL STATEMENTS**

---

**Note C – Intangible Assets – Cryptocurrencies (Continued)**

Cryptocurrencies as of December 31, are summarized as follows:

	<u>2017</u>	<u>2016</u>
Cost	\$ 1,599	\$ 1,555
Unrealized gain or loss	<u>313,386</u>	<u>776</u>
Total	<u>\$ 314,985</u>	<u>\$ 2,331</u>

Income from the increase in fair value of cryptocurrencies consists of the following for the year ended December 31:

	<u>2017</u>	<u>2016</u>
Unrealized gain	<u>\$ 312,610</u>	<u>\$ 776</u>

**Note D – 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.

**MACHINE INTELLIGENCE RESEARCH INSTITUTE**  
**NOTES TO FINANCIAL STATEMENTS**

---

**Note D – Fair value of Assets and Liabilities (Continued)**

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:

	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
December 31, 2017				
Equity securities	\$ 2,772,736	\$ 2,772,736	\$ 0	\$ 0
Cryptocurrencies	314,985	314,985		
Funds of Funds – SVCF	<u>297,990</u>			<u>297,990</u>
Total	<u>\$ 3,385,711</u>	<u>\$ 3,087,721</u>	<u>\$ 0</u>	<u>\$ 297,990</u>
	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
December 31, 2016				
Equity securities	\$ 1,466,188	\$ 1,466,188	\$ 0	\$ 0
Cryptocurrencies	2,331	2,331		
Fund of Funds – SVCF	<u>277,318</u>			<u>277,318</u>
Total	<u>\$ 1,745,837</u>	<u>\$ 1,468,519</u>	<u>\$ 0</u>	<u>\$ 277,318</u>

**MACHINE INTELLIGENCE RESEARCH INSTITUTE**  
**NOTES TO FINANCIAL STATEMENTS**

---

**Note D – 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 NAV as of December 31:

	<u>2017</u>	<u>2016</u>
Beginning Balance	\$ 277,318	\$ 268,875
Interest and dividend income	2,871	2,460
Net realized gain (loss)	13,260	2,647
Net unrealized gain (loss)	8,180	7,018
Investment management fees	(771)	(964)
Support fees	<u>(2,868)</u>	<u>(2,718)</u>
Ending Balance	<u>\$ 297,990</u>	<u>\$ 277,318</u>

**Note E – Fixed Assets**

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

	<u>2017</u>	<u>2016</u>
Leasehold improvements	\$ 88,676	\$ 73,192
Furniture & fixtures	34,805	30,352
Computer equipment	60,766	24,385
Intangible assets: domains	<u>8,170</u>	<u>8,170</u>
Fixed Assets Total	192,417	136,099
Accumulated depreciation	<u>(84,765)</u>	<u>(41,555)</u>
Total	<u>\$ 107,652</u>	<u>\$ 94,544</u>

**Note F – Temporarily Restricted Net Assets**

At December 31, temporarily restricted net assets are comprised of contributions given for use in particular programs and activities. The following restrictions apply:

	<u>2017</u>	<u>2016</u>
Artificial Intelligence Research	<u>\$ 38,949</u>	<u>\$ 145,948</u>



**MACHINE INTELLIGENCE RESEARCH INSTITUTE**  
**NOTES TO FINANCIAL STATEMENTS**

---

**Note G – Operating Lease**

The Organization has an operating lease agreement for space at 2030 Addison Street, Suite 700, Berkeley, California expiring November 30, 2018. The lease commenced on July 1, 2013 for space in Suite 300 in the same building and was amended on December 1, 2016, the date the organization moved from Suite 300 to Suite 700. Currently, the organization has a signed agreement to sublease a portion of the office space to another tenant. Rental expense under the operating lease was \$195,030, offset by rental income of \$86,249, for a total rental expense of \$108,781 for the year ended December 31, 2017. The future minimum lease payments under the agreement, without sublease adjustments, are as follows for the years ending:

December 31, 2018	<u>\$ 183,574</u>
-------------------	-------------------