Grant Thornton

Consolidated Financial Statements and Report of Independent Certified Public Accountants

MIND RESEARCH INSTITUTE

June 30, 2015 (with comparative summarized financial information for June 30, 2014)

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Report of Independent Certified Public Accountants

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Board of Directors
MIND Research Institute

We have audited the accompanying consolidated financial statements of MIND Research Institute and its subsidiary, which comprise the consolidated statement of financial position as of June 30, 2015 and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of MIND Research Institute and its subsidiary as of June 30, 2015, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters – Report on 2014 summarized comparative information

We have previously audited MIND Research Institute's and its subsidiary's 2014 consolidated financial statements (not presented herein), and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated January 16, 2015. In our opinion, the accompanying summarized comparative information as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Grant Thornton LLP

Los Angeles, California
September 30, 2015

MIND Research Institute

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of June 30, 2015
(with comparative summarized information at June 30, 2014)

	2015	2014
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,573,938	$ 432,310
Accounts receivable	4,368,179	3,731,233
Pledges receivable	1,189,000	461,250
Prepaid expenses	262,068	378,801
Total Current Assets	7,393,185	5,003,594
FIXED ASSETS		
Equipment, furniture, and leasehold improvements	4,745,956	4,208,218
Less: accumulated depreciation	(2,480,190)	(1,832,598)
Total Fixed Assets, net	2,265,766	2,375,620
OTHER ASSETS		
Pledges receivable, noncurrent	238,804	328,013
Deposits	51,730	57,142
Intangible assets, net	695,356	554,475
Total Other Assets	985,890	939,630
TOTAL ASSETS	$ 10,644,841	$ 8,318,844
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 710,899	$ 590,724
Accrued expenses	1,921,966	1,194,423
Line of credit	-	1,600,000
Deferred revenue, current	5,203,174	3,676,263
Deferred rent, current	64,611	34,359
Note payable, current	-	6,114
Total Current Liabilities	7,900,650	7,101,883
NONCURRENT LIABILITIES		
Deferred revenue, net of current	1,395,288	346,433
Deferred rent, net of current	674,237	738,848
Note payable, net of current	-	42,440
Total Noncurrent Liabilities	2,069,525	1,127,721
NET ASSETS		
Unrestricted	(5,243,143)	(2,896,165)
Temporarily restricted	5,917,809	2,985,405
Total Net Assets	674,666	89,240
TOTAL LIABILITIES AND NET ASSETS	$ 10,644,841	$ 8,318,844

See accompanying notes to consolidated financial statements.

MIND Research Institute

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the year ended June 30, 2015
(with comparative summarized information for the year ended June 30, 2014)

	Unrestricted	Temporarily Restricted	2015 Total	2014 Total
SUPPORT AND REVENUES				
Contributions	$ 471,030	$ 6,674,215	$ 7,145,245	$ 6,558,463
Special events, net	-	-	-	467,237
In-kind revenues	403,037	-	403,037	510,090
Total Fundraising and Philanthropy	874,067	6,674,215	7,548,282	7,535,790
Program Fees-Schools	23,279,060	-	23,279,060	18,909,812
Gain on sale of securities	-	-	-	232
Total Other Support	-	-	-	232
Net Assets Released from Restrictions	3,741,811	(3,741,811)	-	-
TOTAL SUPPORT AND REVENUES	27,894,938	2,932,404	30,827,342	26,445,834
EXPENSES				
Program	26,661,078	-	26,661,078	21,896,827
Management	2,181,613	-	2,181,613	1,318,667
Fundraising	1,399,225	-	1,399,225	1,989,950
TOTAL EXPENSES	30,241,916	-	30,241,916	25,205,444
CHANGE IN NET ASSETS	(2,346,978)	2,932,404	585,426	1,240,390
BEGINNING NET ASSETS (DEFICIT)	(2,896,165)	2,985,405	89,240	(1,151,150)
ENDING NET ASSETS	$ (5,243,143)	$ 5,917,809	$ 674,666	$ 89,240

See accompanying notes to consolidated financial statements.

MIND Research Institute

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2015
(with comparative summarized information for the year ended June 30, 2014)

	2015						
	Program					2015	2014
Expense	Education	Research	Total	Fundraising	Management	Total	Total
Salaries	$ 16,446,680	$ 372,058	$ 16,818,738	$ 932,647	$ 1,750,039	$ 19,501,424	$ 16,178,407
Benefits	1,728,282	26,056	1,754,338	105,222	108,549	1,968,109	1,277,897
Payroll Taxes	1,193,519	26,908	1,220,427	69,156	117,636	1,407,219	1,098,616
Labor sub-total	19,368,481	425,022	19,793,503	1,107,025	1,976,224	22,876,752	18,554,920
Travel, Meals & Entertainment	1,377,196	38,541	1,415,737	86,016	26,450	1,528,203	1,567,950
Facility Costs	1,327,661	30,552	1,358,213	84,003	65,264	1,507,480	1,114,204
Conferences & Meetings	1,076,507	581	1,077,088	9,625	1,836	1,088,549	694,928
Outside Services	811,202	52,463	863,665	16,725	6,163	886,553	1,187,360
Depreciation & Amortization	619,457	18,900	638,357	34,699	41,229	714,285	622,958
Office Expenses	413,242	1,449	414,691	8,259	13,582	436,532	409,692
Legal Fees	304,919	4,376	309,295	25,116	22,920	357,331	221,932
Information Technology	260,459	7,331	267,790	13,430	17,801	299,021	189,122
Printing & Publishing	186,479	131	186,610	3,652	520	190,782	158,904
Subscriptions	88,246	20	88,266	2,271	2,048	92,585	132,638
Accounting Fees	73,792	1,694	75,486	3,323	5,206	84,015	19,340
Business Insurance	28,662	1,018	29,680	2,062	1,393	33,135	27,375
Interest	9,876	233	10,109	726	353	11,188	97,001
Bank Fees	6,128	57	6,185	114	212	6,511	21,839
Special Event	-	-	-	-	-	-	83,798
Other	125,842	561	126,403	2,179	412	128,994	101,483
Totals	$ 26,078,149	$ 582,929	$ 26,661,078	$ 1,399,225	$ 2,181,613	$ 30,241,916	$ 25,205,444

See accompanying notes to consolidated financial statements.

MIND Research Institute

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended June 30, 2015
(with comparative summarized information for the year ended June 30, 2014)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 585,426	$ 1,240,390
Adjustments to reconcile changes in net assets to net cash from operating activities:		
Depreciation and amortization	714,285	622,958
Donation of equipment	(390,779)	(498,010)
Loss on sale or disposal of equipment	73,790	20,175
(Increase) decrease in assets:		
Accounts receivable	(636,946)	(1,881,867)
Pledge receivables	(638,541)	(162,170)
Prepaid expenses	116,733	(295,039)
Deposits	5,412	23,402
Increase (decrease) in liabilities:		
Accounts payable	120,175	292,599
Accrued expenses	727,544	485,321
Deferred revenues	2,575,766	538,937
Deferred rent	(34,359)	(25,292)
Net Cash Provided By Operating Activities	3,218,506	361,404
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(282,959)	(306,687)
Proceeds from sale of fixed assets	11,263	-
Acquisition of intangible assets	(156,628)	(103,826)
Net Cash Used In Investing Activities	(428,324)	(410,513)
CASH FLOWS FROM FINANCING ACTIVITIES		
Line of credit (net)	(1,600,000)	703
Note payable	(48,554)	48,554
Net Cash (Used In)/Provided By Financing Activities	(1,648,554)	49,257
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,141,628	148
BEGINNING CASH AND CASH EQUIVALENTS	432,310	432,162
ENDING CASH AND CASH EQUIVALENTS	$ 1,573,938	$ 432,310
SUPPLEMENTARY INFORMATION		
Interest paid	$ 11,191	$ 97,002

See accompanying notes to consolidated financial statements.

NOTE 1 – ORGANIZATION

The MIND Research Institute (the "Organization" or "MIND") is a nonprofit tax exempt organization which was incorporated in April 1998. The Organization's mission is to ensure that all students are mathematically equipped to solve the world's most challenging problems through developing and deploying math instructional software and systems. A non-profit organization, MIND also conducts basic neuroscientific, mathematics, and education research to improve math education and advance scientific understanding.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Principles of Consolidation
The consolidated financial statements include the accounts of the MIND Research Institute and MIND Education, Inc., a 98% owned subsidiary, and are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. For the years ended June 30, 2015 and 2014, MIND Education, Inc. had no assets and no activity. All intercompany amounts and transactions have been eliminated in consolidation.

Basis of Presentation
The Organization reports information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets. Net assets that are not subject to donor imposed restrictions and that may be expendable for any purpose in performing the primary objectives of the Organization.

Temporarily restricted net assets. Net assets that are subject to donor-imposed stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire by the passage of time. Temporarily restricted resources whose restrictions are met in the same reporting period are recorded as unrestricted.

Permanently restricted net assets. Net assets that are subject to donor-imposed stipulations that they be maintained permanently by the Organization. As of June 30, 2015 and 2014, the Organization did not have any permanently restricted net assets.

Accounting 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 certain reported amounts and disclosures. Actual results could differ from those estimates.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For the purpose of the consolidated statement of cash flows, the Organization considers cash on hand and cash in other depository institutions with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable result from the sales of educational programs. The Organization's policy is to provide an allowance for doubtful accounts, when necessary, to reflect estimated uncollectible accounts. No allowance for doubtful accounts has been provided as management believes all amounts are collectible.

Pledges Receivable

Unconditional promises to give are recognized in the period received and when collectability is reasonably assured. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Pledges to be received in more than one year are discounted to net present value based on the *Wall Street Journal* prime rate.

No allowance for uncollectible amounts has been established as management believes all pledges receivable to be fully collectible.

Equipment, Furniture, and Leasehold Improvements

Equipment, furniture, and leasehold improvements are carried at cost or, if donated, at the approximate fair value on the date of donation. Depreciation is provided on the straight-line method over estimated useful lives. The useful lives of equipment and furniture are estimated to range between five and seven years, and leasehold improvements are estimated to be the lesser of the lease term or economic life. Additions and improvements that increase the capacity or lengthen the useful lives of the assets are capitalized. Repairs and maintenance are expensed as incurred.

Intangible Assets

Patent, trademark and copyright application costs are capitalized. When patents are approved, they are amortized on a straight-line basis over their expected lives. Indefinite lived intangible assets are evaluated for impairment on at least an annual basis. There was no impairment of intangible assets in the years ended June 30, 2015 and 2014.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue and Support

Revenue primarily consists of contributions and sales of educational software, subscriptions and related support and training services.

Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. All contributions are considered to be unrestricted unless specifically restricted by the donor.

The Organization's software sales consist of multiple elements of the above items. Revenue earned on software arrangements involving multiple elements is allocated to each element based on the relative fair values of those elements. The fair value of an element is based on vendor-specific objective evidence ("VSOE"). The Organization limits its assessment of VSOE of fair value for each element to the price charged when the same element is sold separately. VSOE calculations are updated annually. The Organization establishes VSOE of fair value for the related undelivered elements based on the bell-shaped curve method, where the entire population of separate transactions where the element is sold separately is evaluated to determine whether the range of prices paid is sufficiently narrow to provide evidence of VSOE of fair value.

The Organization derives revenue from subscription fees for access to and use of its math education system. Subscription fees are recognized ratably over the contract term of the arrangement beginning on the date that the subscription is made available to the customer.

When evidence of fair value exists for the undelivered elements only, the residual method is used. Under the residual method, the Organization defers revenue related to the undelivered elements based on VSOE of fair value of each of the undelivered elements and allocates the remainder of the contract price net of all discounts to revenue recognized from the delivered elements.

The Organization estimates that the majority of the deferred revenue as of its fiscal year end (June 30) will be recognized as revenue over the subsequent 12 months.

The Organization ensures that the following criteria are met prior to recognition of revenue: there is persuasive evidence of an arrangement; the product has been delivered or services have been rendered; the fee is fixed or determinable; and collectability is reasonably assured.

Donated Services and Goods

The Organization recognizes the contribution of services if the services received require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributed services that do not meet the criteria are not recognized.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated goods are recorded as contributions at their estimated fair value on the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated goods to a specific purpose.

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on estimates developed by management.

Computer Software Development Costs

All computer software development costs are considered research and development activities and are expensed as incurred.

401(k) Plan

The Organization offers a tax-qualified 401(k) defined contribution plan (the Plan) to all employees who meet eligibility requirements. Eligible employees are entitled to defer the lesser of 100 percent of their compensation or a fixed amount determined annually by the Internal Revenue Service. The Organization has the discretion to match participant contributions. Plan matching contributions for the year ended June 30, 2015 were $164,224. No contributions were made for the year ended June 30, 2014. Vesting of the Plan matching contributions is based on years of continuous service, and are 100 percent vested after four years of service.

Income Tax Status

The Organization is exempt from income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue Code Section 23701(d). The Organization is classified by the Internal Revenue Service as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(c)(2). Income for certain activities not directly related to the Organization's tax-exempt purpose is subject to unrelated business income taxation.

The Organization evaluates uncertain tax positions whereby the effect of the uncertainty would be recorded if the tax positions will more likely than not be sustained upon examination. As of June 30, 2015, management does not believe the Organization has any uncertain tax positions requiring accrual or disclosure. The Organization is subject to potential income tax audits on open tax years by any taxing jurisdiction in which it operates. The statute of limitations for federal and California state purposes is generally three and four years, respectively.

Reporting of Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through September 30, 2015, the date the financial statements were available to issue.

NOTE 3 – FAIR VALUE MEASUREMENTS

The carrying value of cash and cash equivalents are reasonable estimates of fair value due to their short term nature.

NOTE 4 – PLEDGES RECEIVABLE

Pledges receivable as of June 30, are as follows:

	2015	2014
Receivable in less than one year	$ 1,189,000	$ 461,250
Receivable in greater than one year	270,000	367,500
	1,459,000	828,750
Less: present value discounts	(31,196)	(39,487)
	1,427,804	789,263
Less: current portion	(1,189,000)	(461,250)
Noncurrent portion	$ 238,804	$ 328,013

NOTE 5 – EQUIPMENT, FURNITURE, AND LEASEHOLD IMPROVEMENTS

A summary of equipment, furniture, and leasehold improvements as of June 30, is as follows:

	2015	2014
Equipment	$ 3,450,708	$ 2,912,970
Furniture	351,347	351,347
Leasehold improvements	943,901	943,901
	4,745,956	4,208,218
Less: accumulated depreciation	(2,480,190)	(1,832,598)
	$ 2,265,766	$ 2,375,620

For the years ended June 30, 2015 and 2014 depreciation expense recognized was $698,538 and $588,441, respectively.

NOTE 6 – INTANGIBLE ASSETS

A summary of intangible assets as of June 30, is as follows:

	2015	2014
Patent costs	$ 524,367	$ 466,157
Trademarks and copyrights	245,146	146,728
	769,513	612,885
Less: accumulated amortization	(74,157)	(58,410)
	$ 695,356	$ 554,475

For the years ended June 30, 2015 and 2014, amortization expense recognized was $15,747 and $34,517, respectively. The weighted average remaining useful lives of the Organization's amortizing intangible assets is 95 months. The estimated future amortization expense related to intangible assets will be approximately $17,000 per year for the years ending June 30, 2016 to 2020.

NOTE 7 – NOTE PAYABLE

During January 2013, the Organization acquired a note payable ("the note") to finance tenant improvements to its office facility. The note was paid in full on September 24, 2014. The note was collateralized by the Organization's assets and would have matured in December 2020. The note bore an annual interest rate of 7 percent. As of June 30, 2014, the outstanding balance on the note was $48,554. For the years ended June 30, 2015 and 2014, the Organization incurred interest expense and fees of $841 and $5,572, respectively.

NOTE 8 – LINE OF CREDIT

During May 2014, the Organization renewed its line of credit with a financial institution for up to $3,700,000. The line of credit is collateralized by the Organization's assets and matures in October 2015. The line of credit bears a variable interest rate based on the *Wall Street Journal* prime rate plus one percent, with a minimum rate of 5.75 percent. As of June 30, 2015, the line of credit's interest rate was 5.75 percent. The line of credit requires minimum monthly payments on interest incurred and requires payment of all outstanding balances upon maturity. The line of credit contains customary affirmative and negative covenants. As of June 30, 2015, the Organization believes it was in compliance with all covenants. As of June 30, 2015 and June 30, 2014 the amounts outstanding under this line of credit were zero and $1,600,000, respectively. For the years ended June 30, 2015 and 2014 the Organization incurred interest expense and fees of $10,350 and $91,227, respectively.

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following as of June 30, is as follows:

	2015	2014
Time restricted	$ 373,040	$ 543,155
Purpose restricted	5,544,769	2,442,250
	$ 5,917,809	$ 2,985,405

Net assets were released from donor restrictions either by incurring expenses, which satisfied the restricted purposes or by the occurrences of other events specified by donors during the years ended June 30, 2015 and 2014.

NOTE 10 – SPECIAL EVENTS

The Organization held special events in 2014 to raise funds to support operations and various programs. There were no special events held in 2015. Revenues and donor benefit expenses relating to special events for the year ended June 30, 2014 were as follows:

Revenues	$ 522,661
Less direct donor benefits	(55,424)
	$ 467,237

NOTE 11 – IN-KIND GOODS AND SERVICES

Many individuals volunteer their time and perform a variety of tasks that assist the Organization. For the years ended June 30, 2015 and 2014, no amounts were recognized in the statement of activities and changes in net assets as they did not meet the criteria described in Note 2.

The Organization receives donated materials, equipment, and storage space. For the years ended June 30, 2015 and 2014, the Organization recognized in-kind revenues of $403,037 and $510,090, respectively.

NOTE 12 – RELATED PARTY TRANSACTIONS

For the years ended June 30, 2015 and 2014, the Organization received contributions from members of the Organization's board of directors or business or charitable entities related to them totaling $961,500 and $786,805, respectively.

NOTE 12 – RELATED PARTY TRANSACTIONS (Continued)

Pledges receivable from the Organization's board of directors or business or charitable entities related to them are as follows as of June 30:

	2015	2014
Related party pledges receivable, current	$ 87,500	$ 82,500
Related party pledges receivable, noncurrent	224,543	282,686
	$ 312,043	$ 365,186

The Organization was provided with inventory storage space by an entity owned by a member of the Organization's board of directors. For the years ended June 30, 2015 and 2014, the Organization recognized in-kind rent of $12,258 and $12,080, respectively.

NOTE 13 – LEASE COMMITMENT

In September 2012, the Organization entered into a lease agreement for office space located in Irvine, California beginning in January 2013. The term of the lease extends through December 2020 and requires minimum monthly rent payments of $50,056. The lease includes certain tenant improvements and rent abatement during the lease period. As of June 30, 2015 and 2014, the Organization recorded deferred rent of $738,848 and $773,207, respectively. The Organization also leases office equipment with maturities ranging from July 2016 to March 2018.

For the year ended June 30, 2015 and 2014, rent expense was $1,039,389 and $887,074, respectively.

Future minimum lease payments for the years ending June 30 are as follows:

2016	$ 821,055
2017	807,487
2018	808,422
2019	764,868
2020 and after	1,207,812
	$ 4,409,644

NOTE 14 – CONCENTRATION OF CREDIT RISK

For the years ended June 30, 2015 and 2014, the Organization received 24 and 28 percent of its revenue from its fundraising activities. Management anticipates continued support from its contributors in the future to be a substantial portion of the Organization's revenue.

Cash deposits in financial institutions may exceed federally insured limits at times during the year. As of June 30, 2015 and 2014, the cash and cash equivalents held at financial institutions in excess of the Federal Deposit Insurance Corporation insurance amount of $250,000 was approximately $1,044,064 and $156,000, respectively. Cash deposited in financial institutions differs from cash presented in the consolidated statement of financial position due to timing differences.