Grant Thornton

Consolidated Financial Statements and Report of Independent Certified Public Accountants

MIND RESEARCH INSTITUTE

June 30, 2016 (With comparative summarized financial information for June 30, 2015)

Contents

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, 2016 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, 2016, 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 2015 summarized comparative information

We have previously audited MIND Research Institute's and its subsidiary's 2015 consolidated financial statements (not presented herein), and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated September 30, 2016. In our opinion, the accompanying summarized comparative information as of and for the year ended June 30, 2015 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, 2016

MIND Research Institute

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of June 30, 2016
(With comparative summarized information at June 30, 2015)

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 755,786	$ 1,573,938
Accounts receivable	6,962,920	4,368,179
Pledges receivable, current	386,563	1,189,000
Prepaid expenses and other current assets	285,782	262,068
Total Current Assets	8,391,051	7,393,185
FIXED ASSETS		
Equipment, furniture, and leasehold improvements	6,159,637	4,745,956
Less: accumulated depreciation	(3,163,810)	(2,480,190)
Total Fixed Assets, net	2,995,827	2,265,766
OTHER ASSETS		
Pledges receivable, noncurrent	217,854	238,804
Deposits	51,730	51,730
Intangible assets, net	864,152	695,356
Total Other Assets	1,133,736	985,890
TOTAL ASSETS	$ 12,520,614	$ 10,644,841
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 569,729	$ 710,899
Accrued expenses	1,891,755	1,921,966
Line of credit	-	-
Note payable	-	-
Deferred revenue, current	6,328,169	5,203,174
Deferred rent, current	94,857	64,611
Total Current Liabilities	8,884,510	7,900,650
NONCURRENT LIABILITIES		
Deferred revenue, net of current	2,128,662	1,395,288
Deferred rent, net of current	579,380	674,237
Total Noncurrent Liabilities	2,708,042	2,069,525
NET ASSETS (DEFICIT)		
Unrestricted	(2,333,978)	(5,243,143)
Temporarily restricted	3,262,040	5,917,809
Total Net Assets	928,062	674,666
TOTAL LIABILITIES AND NET ASSETS	$ 12,520,614	$ 10,644,841

See accompanying notes to consolidated financial statements.

MIND Research Institute

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the year ended June 30, 2016
(With comparative summarized information for the year ended June 30, 2015)

	Unrestricted	Temporarily Restricted	2016 Total	2015 Total
SUPPORT AND REVENUES				
Contributions	$ 846,145	$ 4,748,296	$ 5,594,441	$ 7,145,245
In-kind revenues	816,548	-	816,548	403,037
Total Fundraising and Philanthropy	1,662,693	4,748,296	6,410,989	7,548,282
Program Fees-Schools	22,683,549	-	22,683,549	23,279,060
Net Assets Released from Restrictions	7,404,065	(7,404,065)	-	-
TOTAL SUPPORT AND REVENUES	31,750,307	(2,655,769)	29,094,538	30,827,342
EXPENSES				
Program	25,593,558	-	25,593,558	26,661,078
Management	1,881,030	-	1,881,030	2,181,613
Fundraising	1,366,554	-	1,366,554	1,399,225
TOTAL EXPENSES	28,841,142	-	28,841,142	30,241,916
CHANGE IN NET ASSETS	2,909,165	(2,655,769)	253,396	585,426
BEGINNING NET ASSETS (DEFICIT)	(5,243,143)	5,917,809	674,666	89,240
ENDING NET ASSETS (DEFICIT)	$ (2,333,978)	$ 3,262,040	$ 928,062	$ 674,666

See accompanying notes to consolidated financial statements.

MIND Research Institute

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

For the year ended June 30, 2016
(With comparative summarized information for the year ended June 30, 2015)

	2016						2015
	Program						
Expenses	Education	Research	Total	Fundraising	Management	Total	Total
Salaries	$ 16,037,029	$ 401,987	$ 16,439,016	$ 940,478	$ 1,509,701	$ 18,889,195	$ 19,501,424
Benefits	1,541,383	35,104	1,576,487	91,803	72,956	1,741,246	1,968,109
Payroll Taxes	1,134,789	27,470	1,162,259	68,345	86,282	1,316,886	1,407,219
Labor sub-total	18,713,201	464,561	19,177,762	1,100,626	1,668,939	21,947,327	22,876,752
Travel, Meals & Entertainment	1,592,493	18,139	1,610,632	90,472	35,114	1,736,218	1,528,203
Facility Costs	1,266,593	27,240	1,293,833	50,828	67,520	1,412,181	1,507,480
Conferences & Meetings	833,124	1,790	834,914	10,993	2,918	848,825	1,088,549
Depreciation & Amortization	611,992	17,580	629,572	29,991	42,769	702,332	714,285
Outside Services	538,699	22,228	560,927	10,742	14,195	585,864	886,553
Office Expenses	515,787	1,768	517,555	12,030	13,402	542,987	443,043
Legal Fees	245,144	2,073	247,217	13,535	6,973	267,725	357,331
Information Technology	214,021	5,888	219,909	10,001	14,312	244,222	299,021
Subscriptions	157,846	241	158,087	21,627	584	180,298	92,585
Printing & Publishing	116,808	279	117,087	5,557	701	123,345	190,782
Interest	79,635	2,260	81,895	3,967	5,512	91,374	11,188
Business Insurance	54,642	1,593	56,235	2,633	3,848	62,716	33,135
Accounting & Tax Fees	53,098	1,542	54,640	2,555	3,754	60,949	84,015
Other	33,293	-	33,293	997	489	34,779	128,994
Totals	$ 25,026,376	$ 567,182	$ 25,593,558	$ 1,366,554	$ 1,881,030	$ 28,841,142	$ 30,241,916

See accompanying notes to consolidated financial statements.

MIND Research Institute

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended June 30, 2016
(With comparative summarized information for the year ended June 30, 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 253,396	$ 585,426
Adjustments to reconcile changes in net assets to net cash from operating activities:		
Depreciation and amortization	702,332	714,285
Donation of equipment and intangible assets	(804,056)	(390,779)
Loss on sale or disposal of equipment	1,072	73,790
(Increase) decrease in assets:		
Accounts receivable	(2,594,741)	(636,946)
Pledge receivables	823,388	(638,541)
Prepaid expenses and other current assets	(23,714)	116,733
Deposits	-	5,412
Increase (decrease) in liabilities:		
Accounts payable	(141,170)	120,175
Accrued expenses	(30,211)	727,544
Deferred revenues	1,858,369	2,575,766
Deferred rent	(64,611)	(34,359)
Net Cash (Used In)/Provided By Operating Activities	(19,946)	3,218,506
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(615,938)	(282,959)
Proceeds from sale of fixed assets	-	11,263
Acquisition of intangible assets	(182,268)	(156,628)
Net Cash Used In Investing Activities	(798,206)	(428,324)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment on line of credit (net)	-	(1,600,000)
Payment on note payable	-	(48,554)
Net Cash Used In Financing Activities	-	(1,648,554)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(818,152)	1,141,628
BEGINNING CASH AND CASH EQUIVALENTS	1,573,938	432,310
ENDING CASH AND CASH EQUIVALENTS	$ 755,786	$ 1,573,938
SUPPLEMENTARY INFORMATION		
Interest paid	$ 91,374	$ 11,191

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, 2016 and 2015, 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, 2016 and 2015, 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.

Software Development Costs

Computer software developed or obtained for internal use is capitalized when certain criteria have been met. Costs incurred during the application development stage for internal-use software are capitalized in equipment, furniture, and leasehold improvements and amortized over the estimated useful life of the software, which is estimated by management to be five years.

Computer software development costs for software to be sold or marketed are considered research and development activities and are expensed as incurred.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 during the years ended June 30, 2016 and 2015.

Program Fees 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.

For the years ended June 30, 2016 and June 30, 2015, the Organization estimates that deferred revenue as of its fiscal year end (June 30) which will be recognized as revenue over the subsequent 12 months is 75% and 79%, respectively.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 shall not be recognized.

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.

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. For the years ended June 30, 2016 and 2015 the Organization made Plan matching contributions of $205,337 and $164,224, respectively. 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, 2016, 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 has a filing responsibility. The statute of limitations for federal and California state purposes is generally three and four years, respectively.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2016, the date the financial statements were available to issue.

NOTE 3 – PLEDGES RECEIVABLE

Pledges receivable as of June 30, are as follows:

	2016	2015
Receivable in less than one year	$ 386,563	$ 1,189,000
Receivable in greater than one year	245,200	270,000
	631,763	1,459,000
Less: present value discounts	(27,346)	(31,196)
	604,417	1,427,804
Less: current portion	(386,563)	(1,189,000)
Noncurrent portion	$ 217,854	$ 238,804

NOTE 4 – EQUIPMENT, FURNITURE, AND LEASEHOLD IMPROVEMENTS

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

	2016	2015
Equipment	$ 4,352,807	$ 3,450,708
Internal use software	487,683	-
Furniture	373,871	351,347
Leasehold improvements	945,276	943,901
	6,159,637	4,745,956
Less: accumulated depreciation	(3,163,810)	(2,480,190)
	$ 2,995,827	$ 2,265,766

For the years ended June 30, 2016 and 2015 depreciation expense recognized was $683,861 and $698,538, respectively.

NOTE 5 – INTANGIBLE ASSETS

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

	2016	2015
Patent costs	$ 644,307	$ 524,367
Trademarks and copyrights	312,473	245,146
	956,780	769,513
Less: accumulated amortization	(92,628)	(74,157)
	$ 864,152	$ 695,356

For the years ended June 30, 2016 and 2015, amortization expense recognized was $18,471 and $15,747, respectively. The weighted average remaining useful lives of the Organization's amortizing intangible assets is 83 months. The estimated future amortization expense related to intangible assets will be approximately $19,000 per year from fiscal 2017 to 2021.

NOTE 6 – 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, 2016 and June 30, 2015 no amounts were outstanding under this note. For the year ended June 30, 2015, the Organization incurred interest expense and fees of $841.

NOTE 7 – LINE OF CREDIT

During October 2015, 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 November 2016. 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, 2016, 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, 2016, the Organization believes it was in compliance with all covenants. As of June 30, 2016 and June 30, 2015 no amounts were outstanding under this line of credit. For the years ended June 30, 2016 and 2015 the Organization incurred interest expense and fees of $91,374 and $10,350, respectively.

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

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

	2016	2015
Time restricted	$ 217,041	$ 373,040
Purpose restricted	3,044,999	5,544,769
	$ 3,262,040	$ 5,917,809

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, 2016 and 2015.

NOTE 9 – 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, 2016 and 2015, 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, 2016 and 2015, the Organization recognized in-kind revenues of $816,548 and $403,037, respectively.

NOTE 10 – RELATED PARTY TRANSACTIONS

For the years ended June 30, 2016 and 2015, the Organization received contributions from members of the Organization’s board of directors or business or charitable entities related to them totaling $777,252 and $961,500, respectively.

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

	2016	2015
Related party pledges receivable, current	$ 303,313	$ 87,500
Related party pledges receivable, noncurrent	217,854	224,543
	$ 521,167	$ 312,043

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, 2016 and 2015, the Organization recognized in-kind rent of $2,892 and $12,258, respectively.

NOTE 11 – 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, 2016 and 2015, the Organization recorded deferred rent of $674,237 and $738,848, respectively. The Organization also leases office equipment with maturities ranging from July 2016 to March 2018.

For the years ended June 30, 2016 and 2015, rent expense was $1,010,213 and $1,039,389, respectively.

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

Years Ended June 30,	
2017	$ 807,487
2018	808,422
2019	764,868
2020	799,446
2021 and after	408,366
	$ 3,588,589

NOTE 12 – CONCENTRATION OF CREDIT RISK

For the years ended June 30, 2016 and 2015, the Organization received 22 and 24 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, 2016 and 2015, the cash and cash equivalents held at financial institutions in excess of the Federal Deposit Insurance Corporation insurance amount of $250,000 was approximately $82,888 and $1,044,064, respectively. Cash deposited in financial institutions differs from cash presented in the consolidated statement of financial position due to timing differences.