Grant Thornton

Consolidated Financial Statements and Report of Independent Certified Public Accountants

MIND RESEARCH INSTITUTE

June 30, 2017 (With comparative summarized financial information for June 30, 2016)

Contents

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Report of Independent Certified Public Accountants

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, 2017 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, 2017, 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 2016 summarized comparative information

We have previously audited MIND Research Institute's and its subsidiary's 2016 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, 2016 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Grant Thornton LLP

Los Angeles, California
November 7, 2017

MIND Research Institute

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of June 30, 2017
(With comparative summarized information at June 30, 2016)

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,141,592	$ 755,786
Accounts receivable	3,982,837	6,962,920
Pledges receivable, current	2,213,897	386,563
Prepaid expenses and other current assets	329,501	285,782
Total Current Assets	7,667,827	8,391,051
FIXED ASSETS		
Equipment, furniture, and leasehold improvements	6,475,581	6,159,637
Less: accumulated depreciation	(4,177,933)	(3,163,810)
Total Fixed Assets, net	2,297,648	2,995,827
OTHER ASSETS		
Pledges receivable, noncurrent	726,519	217,854
Deposits	55,407	51,730
Intangible assets, net	979,033	864,152
Total Other Assets	1,760,959	1,133,736
TOTAL ASSETS	$ 11,726,434	$ 12,520,614
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 796,784	$ 569,729
Accrued expenses	1,762,436	1,891,755
Line of credit	1,800,000	-
Deferred revenue, current	7,049,421	6,328,169
Deferred rent, current	125,097	94,857
Total Current Liabilities	11,533,738	8,884,510
NONCURRENT LIABILITIES		
Deferred revenue, net of current	1,398,895	2,128,662
Deferred rent, net of current	454,283	579,380
Total Noncurrent Liabilities	1,853,178	2,708,042
TOTAL LIABILITIES	13,386,916	11,592,552
NET ASSETS (DEFICIT)		
Unrestricted	(6,895,478)	(2,333,978)
Temporarily restricted	5,234,996	3,262,040
Total Net Assets	(1,660,482)	928,062
TOTAL LIABILITIES AND NET ASSETS	$ 11,726,434	$ 12,520,614

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, 2017
(With comparative summarized information for the year ended June 30, 2016)

	Unrestricted	Temporarily Restricted	2017 Total	2016 Total
SUPPORT AND REVENUES				
Contributions	$ 405,449	$ 5,275,810	$ 5,681,259	$ 5,594,441
In-kind revenues	220,262	-	220,262	816,548
Total Fundraising and Philanthropy	625,711	5,275,810	5,901,521	6,410,989
Program Fees-Schools	20,654,846	-	20,654,846	22,683,994
Net Assets Released from Restrictions	3,302,854	(3,302,854)	-	-
Interest income	1,923	-	1,923	151
Loss on sale of securities	(3,129)	-	(3,129)	(596)
Total Other Support	(1,206)	-	(1,206)	(445)
TOTAL SUPPORT AND REVENUES	24,582,205	1,972,956	26,555,161	29,094,538
EXPENSES				
Program	25,756,419	-	25,756,419	25,593,558
Management	2,074,470	-	2,074,470	1,881,030
Fundraising	1,312,816	-	1,312,816	1,366,554
TOTAL EXPENSES	29,143,705	-	29,143,705	28,841,142
CHANGE IN NET ASSETS	(4,561,500)	1,972,956	(2,588,544)	253,396
BEGINNING NET ASSETS (DEFICIT)	(2,333,978)	3,262,040	928,062	674,666
ENDING NET ASSETS (DEFICIT)	$ (6,895,478)	$ 5,234,996	$ (1,660,482)	$ 928,062

See accompanying notes to consolidated financial statements.

MIND Research Institute

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2017
(With comparative summarized information for the year ended June 30, 2016)

	2017						2016
	Program						
Expenses	Education	Research	Total	Fundraising	Management	Total	Total
Salaries	$ 15,183,872	$ 606,647	$ 15,790,519	$ 839,145	$ 1,472,792	$ 18,102,456	$ 18,889,195
Benefits	1,651,691	89,047	1,740,738	117,595	182,708	2,041,041	1,741,246
Payroll Taxes	1,103,320	45,254	1,148,574	60,313	94,286	1,303,173	1,316,886
Labor sub-total	17,938,883	740,948	18,679,831	1,017,053	1,749,786	21,446,670	21,947,327
Travel, Meals and Entertainment	1,426,685	76,933	1,503,618	65,926	84,060	1,653,604	1,736,218
Facility Expense	1,070,586	46,023	1,116,609	50,645	72,722	1,239,976	1,412,181
Outside Services	721,849	137,889	859,738	33,118	12,564	905,420	585,864
Conferences and Meetings	634,720	781	635,501	14,602	8,974	659,077	848,825
Information Technology	584,639	7,706	592,345	17,216	16,736	626,297	424,520
Office Expenses	530,500	4,289	534,789	14,576	18,369	567,734	542,987
Legal Fees	162,069	2,887	164,956	12,645	7,007	184,608	267,725
Printing and Publishing	158,288	203	158,491	18,443	1,191	178,125	123,345
Business Insurance	96,108	4,259	100,367	4,986	7,493	112,846	62,716
Accounting and Tax Fees	36,416	1,171	37,587	1,970	2,608	42,165	60,949
Interest	25,549	1,435	26,984	1,361	2,162	30,507	91,374
Other	171,202	9,890	181,092	1,296	344	182,732	34,779
Depreciation and Amortization	901,413	38,178	939,591	47,487	70,377	1,057,455	702,332
Impairment of Intangible Assets	218,353	6,567	224,920	11,492	20,077	256,489	-
Totals	$ 24,677,260	$ 1,079,159	$ 25,756,419	$ 1,312,816	$ 2,074,470	$ 29,143,705	$ 28,841,142

See accompanying notes to consolidated financial statements.

MIND Research Institute

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended June 30, 2017
(With comparative summarized information for the year ended June 30, 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ (2,588,544)	$ 253,396
Adjustments to reconcile changes in net assets to net cash from operating activities:		
Depreciation and amortization	1,057,455	702,332
Donation of equipment and intangible assets	(117,872)	(804,056)
Loss on sale, disposal or theft of equipment	17,030	1,072
Loss on impairment of intangible assets	256,489	-
(Increase) decrease in assets:		
Accounts receivable	2,980,083	(2,594,741)
Pledge receivables	(2,335,999)	823,388
Prepaid expenses and other current assets	(43,719)	(23,714)
Deposits	(3,677)	-
Increase (decrease) in liabilities:		
Accounts payable	227,055	(141,170)
Accrued expenses	(129,319)	(30,211)
Deferred revenues	(8,515)	1,858,369
Deferred rent	(94,857)	(64,611)
Net Cash Used In Operating Activities	(784,390)	(19,946)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(237,883)	(615,938)
Acquisition of intangible assets	(391,921)	(182,268)
Net Cash Used In Investing Activities	(629,804)	(798,206)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowing on line of credit	1,800,000	-
Net Cash Provided by Financing Activities	1,800,000	-
NET CHANGE IN CASH AND CASH EQUIVALENTS	385,806	(818,152)
BEGINNING CASH AND CASH EQUIVALENTS	755,786	1,573,938
ENDING CASH AND CASH EQUIVALENTS	$ 1,141,592	$ 755,786
SUPPLEMENTARY INFORMATION		
Interest paid	$ 30,507	$ 91,374

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, 2017 and 2016, 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, 2017 and 2016, 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.

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.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 three and seven years, and leasehold improvements are estimated to be the lesser of the lease term or economic life. In 2017, we changed the estimate of useful lives and depreciation of personal computers and similar equipment from five years to three years. 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.

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 annually and monitored for triggering events on an ongoing basis. There was no impairment of intangible assets during the year ended June 30, 2016, but in the year ended June 30, 2017, the Organization determined that the carrying value of certain patent, trademark and copyright application costs exceeded their present values due to technical obsolescence; thus, the Organization reported a loss from impairment of intangible assets of $256,489, as shown in the accompanying Statement of Functional Expenses.

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.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Program Fees and Support (continued)

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, 2017 and June 30, 2016, 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 83% and 75%, 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.

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.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2017 and 2016 the Organization made Plan matching contributions of $295,870 and $205,337, 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, 2017, 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 November 7, 2017, the date the financial statements were available to issue.

NOTE 3—PLEDGES RECEIVABLE

Pledges receivable as of June 30, are as follows:

	2017		2016	
Receivable in less than one year		$2,213,897		$ 386,563
Receivable in greater than one year	$ 766,400		$ 245,200	
Less: Present value discounts	(39,881)		(27,346)	
Noncurrent portion		726,519		217,854
Total pledge receivables		$2,940,416		$ 604,417

NOTE 4—EQUIPMENT, FURNITURE, AND LEASEHOLD IMPROVEMENTS

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

	2017	2016
Equipment	$4,497,123	$4,352,807
Internal use software	651,911	487,683
Furniture	374,586	373,871
Leasehold improvements	951,961	945,276
	6,475,581	6,159,637
Less: accumulated depreciation	(4,177,933)	(3,163,810)
	$2,297,648	$2,995,827

For the years ended June 30, 2017 and 2016, depreciation expense recognized was $1,036,904, which includes $22,781 from disposal of equipment, and $683,861, respectively.

NOTE 5—INTANGIBLE ASSETS

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

	2017	2016
Patent costs	$ 698,467	$ 644,307
Trademarks and copyrights	393,745	312,473
	1,092,212	956,780
Less: accumulated amortization	(113,179)	(92,628)
	$ 979,033	$ 864,152

For the years ended June 30, 2017 and 2016, amortization expense recognized was $20,551 and $18,471, respectively. The weighted average remaining useful lives of the Organization's amortizing intangible assets is 73 months. The estimated future amortization expense related to intangible assets will be approximately $23,563 per year from fiscal 2018 to 2022 thereafter.

NOTE 6—LINE OF CREDIT

During November 2016, 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 2017. The line of credit bears a variable interest rate based on the *Wall Street Journal* prime rate plus one quarter of one percent (0.250%). As of June 30, 2017, the line of credit's interest rate was 4.50 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, 2017, the Organization was not in compliance with all covenants, but obtained a waiver from the lender. For the years ended June 30, 2017 and 2016, the outstanding amounts under this line of credit was $1,800,000 and $0, respectively. For the years ended June 30, 2017 and 2016, the Organization incurred interest expense and fees of $30,507 and $91,374, respectively.

NOTE 7—TEMPORARILY RESTRICTED NET ASSETS

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

	2017	2016
Time restricted	$ 726,519	$ 217,041
Purpose restricted	4,508,477	3,044,999
	$5,234,996	$3,262,040

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, 2017 and 2016.

NOTE 8—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, 2017 and 2016, 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 also receives donated materials, equipment, and storage space. For the years ended June 30, 2017 and 2016, the Organization recognized in-kind revenues of $220,262 and $816,548, respectively.

NOTE 9—RELATED PARTY TRANSACTIONS

For the years ended June 30, 2017 and 2016, the Organization received contributions from members of the Organization's board of directors or business or charitable entities related to them totaling $1,237,214 and $777,252, 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:

	2017	2016
Related party pledges receivable, current	$ 57,997	$ 303,313
Related party pledges receivable, noncurrent	166,400	217,854
	$ 224,397	$ 521,167

The Organization was provided with inventory storage space by an entity owned by a member of the Organization's board of directors. For each of the years ended June 30, 2017 and 2016, the Organization recognized in-kind rent of $2,892. The Organization also purchases legal services from an entity that employs a member of the Organization's board of directors. For the year ended June 30, 2017, the Organization incurred legal services totaling $181,367 from said legal entity.

NOTE 10—LEASE COMMITMENTS

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, 2017 and 2016, the Organization recorded deferred rent of $579,380 and $674,237, respectively. In August 2016, the Organization entered into a lease for office space in Phoenix, Arizona, for a term of six months and required minimum monthly rent payments of $450. In August 2017, the term of that lease was extended through August 2018, and requires minimum monthly rent payments of $500. In April 2017, the Organization entered into a lease for office space in Austin, Texas. The term of the lease extends through May 2019 and requires minimum monthly rent payments of $3,606. The Organization also leases office equipment with maturities ranging from July 2017 to March 2018.

For the years ended June 30, 2017 and 2016, rent expense was $998,048 and $1,010,213, respectively. Future minimum lease payments under non-cancelable operating leases having initial terms in excess of one year are as follows:

Year Ending June 30,		
2018	$	851,766
2019		805,313
2020		799,446
2021		408,366
	$	2,864,891

NOTE 11—CONCENTRATION OF CREDIT RISK

For each of the years ended June 30, 2017 and 2016, the Organization received 22 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, 2017 and 2016, the Organization held cash and cash equivalents at financial institutions in excess of the Federal Deposit Insurance Corporation insurance amount of $250,000; however, the Organization monitors the financial institutions regularly and does not anticipate any losses from these deposits.

Cash deposited in financial institutions differs from cash presented in the consolidated statement of financial position due to timing differences.