IRIDESCENT

Financial Statements and Compliance
Audit Report
Year Ended December 31, 2014
Together with Independent Auditor’s Report
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## Reports on Internal Control and Compliance

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INDEPENDENT AUDITOR’S REPORT

To the Board of Directors of
Iridescent

Report on Financial Statements

We have audited the accompanying financial statements of Iridescent, a California nonprofit corporation, which comprise the statement of financial position as of December 31, 2014 and the related statements of activities and changes in net assets, 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 the 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 auditors’ judgment, including the assessment of the risks 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 Iridescent'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 Iridescent'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 Iridescent as of December 31, 2014 and the changes in its net assets, functional expenses and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.
Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Expenditures of Federal Awards and Schedule of Findings and Questioned Costs, as required by Office of Management and Budget's Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards and Schedule of Findings and Questioned Costs are fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 8, 2015 on our consideration of Iridescent’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Iridescent’s internal control over financial reporting and compliance.

Los Angeles, California
June 8, 2015
IRIDESCENT
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2014

ASSETS

CURRENT ASSETS

Cash and equivalents $ 1,193,387
Grants receivable, net 1,267,875
Prepaid expenses 24,563

TOTAL CURRENT ASSETS 2,485,825

Property and equipment, net 478,217
Deposits 25,740

TOTAL ASSETS $ 2,989,782

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable $ 26,842
Accrued expenses 24,038

TOTAL LIABILITIES 50,880

COMMITMENT

NET ASSETS

Unrestricted net assets 1,721,402
Temporarily restricted net assets 1,217,500

TOTAL NET ASSETS 2,938,902

TOTAL LIABILITIES AND NET ASSETS $ 2,989,782

The accompanying notes are an integral part of these financial statements.
IRIDESCENT
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2014

<table>
<thead>
<tr>
<th></th>
<th>UNRESTRICTED</th>
<th>TEMPORARILY RESTRICTED</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grants</td>
<td>$1,021,929</td>
<td>$1,217,500</td>
<td>$2,239,429</td>
</tr>
<tr>
<td>Contributions</td>
<td>746,407</td>
<td>-</td>
<td>746,407</td>
</tr>
<tr>
<td>Contributions - in kind</td>
<td>68,402</td>
<td>-</td>
<td>68,402</td>
</tr>
<tr>
<td>Program revenue</td>
<td>22,405</td>
<td>-</td>
<td>22,405</td>
</tr>
<tr>
<td>Others</td>
<td>9,316</td>
<td>-</td>
<td>9,316</td>
</tr>
<tr>
<td></td>
<td><strong>1,868,459</strong></td>
<td><strong>1,217,500</strong></td>
<td><strong>3,085,959</strong></td>
</tr>
<tr>
<td>Net assets released from restrictions</td>
<td>1,231,574</td>
<td>(1,231,574)</td>
<td>-</td>
</tr>
<tr>
<td><strong>TOTAL REVENUE</strong></td>
<td><strong>3,100,033</strong></td>
<td>(14,074)</td>
<td><strong>3,085,959</strong></td>
</tr>
<tr>
<td><strong>EXPENSES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Program services</td>
<td>2,228,316</td>
<td>-</td>
<td>2,228,316</td>
</tr>
<tr>
<td>Management and general</td>
<td>227,548</td>
<td>-</td>
<td>227,548</td>
</tr>
<tr>
<td>Fundraising</td>
<td>141,277</td>
<td>-</td>
<td>141,277</td>
</tr>
<tr>
<td></td>
<td><strong>2,597,141</strong></td>
<td>-</td>
<td><strong>2,597,141</strong></td>
</tr>
<tr>
<td><strong>CHANGE IN NET ASSETS</strong></td>
<td>502,892</td>
<td>(14,074)</td>
<td>488,818</td>
</tr>
<tr>
<td><strong>NET ASSETS, BEGINNING OF YEAR</strong></td>
<td>1,218,510</td>
<td>1,231,574</td>
<td>2,450,084</td>
</tr>
<tr>
<td><strong>NET ASSETS, END OF YEAR</strong></td>
<td>$1,721,402</td>
<td>$1,217,500</td>
<td>$2,938,902</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
## STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2014

<table>
<thead>
<tr>
<th></th>
<th>PROGRAM SERVICES</th>
<th>MANAGEMENT AND GENERAL</th>
<th>FUNDRAISING</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract services</td>
<td>$55,493</td>
<td>$7,700</td>
<td>$20,108</td>
<td>$83,301</td>
</tr>
<tr>
<td>Education materials</td>
<td>149,601</td>
<td></td>
<td></td>
<td>149,601</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>115,067</td>
<td>16,839</td>
<td>8,419</td>
<td>140,325</td>
</tr>
<tr>
<td>Equipment expense</td>
<td>17,419</td>
<td>2,467</td>
<td>2,467</td>
<td>22,353</td>
</tr>
<tr>
<td>Insurance</td>
<td>6,615</td>
<td>529</td>
<td>265</td>
<td>7,409</td>
</tr>
<tr>
<td>Office expenses</td>
<td>10,898</td>
<td>2,497</td>
<td>3,915</td>
<td>17,310</td>
</tr>
<tr>
<td>Printing and copying</td>
<td>6,497</td>
<td>102</td>
<td>51</td>
<td>6,650</td>
</tr>
<tr>
<td>Professional development</td>
<td>6,532</td>
<td>956</td>
<td>478</td>
<td>7,966</td>
</tr>
<tr>
<td>Professional fees</td>
<td>182,759</td>
<td>13,329</td>
<td>15,727</td>
<td>211,815</td>
</tr>
<tr>
<td>Promotion</td>
<td>60,360</td>
<td></td>
<td></td>
<td>60,360</td>
</tr>
<tr>
<td>Rent</td>
<td>116,732</td>
<td></td>
<td></td>
<td>116,732</td>
</tr>
<tr>
<td>Research</td>
<td>19,707</td>
<td></td>
<td></td>
<td>19,707</td>
</tr>
<tr>
<td>Salaries</td>
<td>1,196,801</td>
<td>178,820</td>
<td>89,847</td>
<td>1,465,468</td>
</tr>
<tr>
<td>Taxes</td>
<td>149</td>
<td>1,575</td>
<td></td>
<td>1,724</td>
</tr>
<tr>
<td>Travel</td>
<td>43,406</td>
<td></td>
<td></td>
<td>43,406</td>
</tr>
<tr>
<td>Utilities</td>
<td>27,024</td>
<td></td>
<td></td>
<td>27,024</td>
</tr>
<tr>
<td><strong>Total before amortization and depreciation</strong></td>
<td><strong>2,015,060</strong></td>
<td><strong>224,814</strong></td>
<td><strong>141,277</strong></td>
<td><strong>2,381,151</strong></td>
</tr>
<tr>
<td><strong>Amortization and depreciation</strong></td>
<td><strong>213,256</strong></td>
<td><strong>2,734</strong></td>
<td><strong>-</strong></td>
<td><strong>215,990</strong></td>
</tr>
<tr>
<td><strong>TOTAL EXPENSES</strong></td>
<td><strong>$2,228,316</strong></td>
<td><strong>$227,548</strong></td>
<td><strong>$141,277</strong></td>
<td><strong>$2,597,141</strong></td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets $ 488,818
Adjustment to reconcile changes in net assets to net cash provided by (used in) operating activities:
   Amortization and depreciation 215,990
Changes in operating assets and liabilities:
   (Increase) Decrease in:
      Grants receivable (950,673)
      Prepaid expenses (9,676)
   Increase (Decrease) in:
      Accounts payable 19,832
      Accrued expenses 20,200

   NET CASH USED IN OPERATING ACTIVITIES (215,509)

CASH FLOWS FROM INVESTING ACTIVITIES

   Purchase of property and equipment (16,686)
   Development of computer application software (244,096)

   NET CASH USED IN INVESTING ACTIVITIES (260,782)

NET DECREASE IN CASH (476,291)

CASH, BEGINNING OF YEAR 1,669,678

CASH, END OF YEAR $ 1,193,387

The accompanying notes are an integral part of these financial statements.
NOTE I: NATURE OF ORGANIZATION

Iridescent was incorporated in the State of California in 2006, as a not-for-profit organization. It was formed to (a) foster curiosity and inspire self-confidence in young people with limited access – unlocking doors to their future and preparing them to help solve the world’s most pressing issues, (b) provide an exciting, high quality program that teaches science, technology, engineering and mathematics to elementary, middle and high school students, (c) develop and disseminate Family Science and other project courses to under-served and under-represented students, and (d) connect scientists and engineers with parents to inspire children to become inventors and creators.

Iridescent’s programs include:
- Family computer science
- Family science
- Engineers as teachers
- Technovation challenge
- Summer engineering camp
- Iridescent science studios
- High school explainers
- Parent leadership program and
- The Curiosity Machine

Iridescent has science studios in Los Angeles and New York, and run programs in these cities as well as Boston, Chicago and the San Francisco Bay area. They can also reach families anywhere through the online platform, the Curiosity Machine.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Accounting

The financial statements of Iridescent have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

b. Basis of Presentation

The accompanying financial statements have been prepared in conformity with the disclosure and display requirements as set forth in FASB ASC 958-205-45. Accordingly, the net assets of Iridescent are reported in each of the following three classes: unrestricted, temporarily restricted, and permanently restricted net assets.
- Unrestricted net assets represent resources over which the Board of Directors has discretionary control and are used to carry out Iridescent’s operations in accordance with its bylaws.
- Temporarily restricted net assets represent resources currently available for us, but expendable only for those operating purposes specified by the donor. Resources of this fund originate from gifts and grants.
- Permanently restricted net assets represent resources in which donors have placed restrictions that do not expire.

Net assets of the two restricted classes are created only by donor-imposed restrictions on their use. At December 31, 2014, Iridescent had $1,217,500 of temporarily restricted net assets and no permanently restricted net assets.
NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Cash and Equivalents

Cash and equivalents include all monies in banks and highly liquid investments with maturity dates of less than three months. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

d. Depreciation, Amortization and Property and Equipment

Property, equipment and furniture are carried at cost or, if donated, at estimated fair value on the date of the gift. Depreciation is computed using the straight-line method over useful lives of three to ten years for equipment and furniture.

Leasehold improvements are amortized on a straight-line basis over the shorter of the estimated useful life of the asset or the related lease term.

Computer software and video library are amortized on a straight-line method over the estimated useful lives of three years for software and ten years for the video.

Iridescent capitalizes property and equipment with a cost of over $1,000 and estimated life of three years or more. Iridescent capitalizes expenditures or betterments that materially increase asset lives and charge ordinary repairs and maintenance to operations as incurred. When assets are sold or otherwise disposed of, the costs and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is included in operations.

e. Contributions and Revenue Recognition

In accordance with FASB ASC 958-605-50, revenues from contributions are recognized pursuant to the terms specified by the donor. Contributions are recognized at the earlier of the date receipt of funds or the date of a formal, unconditional pledge from known donors.

Unconditional contributions are measured at fair value when received or promised and reported as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions, including inherent time restrictions. When a time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted and reported in the statement of activities as net assets released from restrictions. Donor restricted contributions whose restrictions are met in the same reporting periods are reported as unrestricted support.

f. Donated Materials and Services

Contributions of services are recognized when received if such services (a) enhance nonfinancial assets or (b) require specialized skills provided by individuals possessing those skills, and would typically need to be purchased if not donated. For the year ended December 31, 2014, Iridescent received in-kind services of $68,402.

In-kind contributions (donated materials and other noncash assets) are recognized at their estimated market value at the date of receipt. For the year ended December 31, 2014, no contributed materials was recognized in the accompanying financial statements.
NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g. Functional Expenses

The costs of providing Iridescent’s programs and other activities have been summarized on a functional basis in the Statement of Activities and Statement of Functional Expenses. Costs have been allocated to program services, management and general, and fundraising. The functional classifications are defined as follows:

- Program service expenses consist of costs incurred in connection with providing services and conducting programs.
- Management and general expenses consist of costs incurred in connection with the overall activities of Iridescent, which are not allocable to another functional expense category.
- Fundraising expenses consist of costs incurred to solicit funds and other fundraising activities.

h. Income Taxes

Iridescent is a nonprofit corporation, under section 501(c)(3) of the Internal Revenue Code and related California law. Iridescent’s revenues are derived primarily from governmental grants and contracts, and contributions and are not subject to federal or state income taxes.

Iridescent does not pay any material excise taxes nor do they earn any unrelated business income. Therefore, no provision for taxes was made.

Iridescent adopted the provisions of FASB interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109. FIN 48 addresses the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements and prescribes a threshold of more likely than not for recognition of tax benefits of uncertain tax positions taken or expected to be taken in a tax return. FIN 48 also provides related guidance on measurement, derecognition, classification, interest and penalties and disclosure. The adoption of FIN 48 did not have a material impact on Iridescent’s financial position, results of operations or cash flows.

Generally Accepted Accounting Principles (GAAP) provides accounting and disclosure guidance about the position taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by Iridescent in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. Under the general three-year statute of limitations, Iridescent’s returns for years ended 2011, 2012 and 2013 are subject to examination by federal and state taxing authorities for three years after they are filed.

i. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.
NOTE 3: CONCENTRATION OF RISK

Financial instruments, which potentially subject Iridescent to concentrations of credit risk, consist of cash and equivalents. Iridescent maintains its cash balances at a single financial institution. Cash accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per financial institution.

At December 31, 2014, Iridescent’s uninsured cash balance was $958,298.

NOTE 4: GRANTS RECEIVABLE, NET

Grants receivable consists of unconditional promises to give that are expected to be collected in future years and grants classified as exchange transactions to the extent that allowable expenditures have been incurred, but reimbursement from the grantor has not yet been received. Grants receivable is reviewed for collectability and reserves for uncollectible amounts are established when needed. Management believes that all grants receivable amounts are fully collectible and therefore no reserve is reflected in these financial statements.

At December 31, 2014, grants receivable, net was $1,267,875.

NOTE 5: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

<table>
<thead>
<tr>
<th></th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computer software</td>
<td>$827,693</td>
</tr>
<tr>
<td>Studio build out (movable)</td>
<td>63,283</td>
</tr>
<tr>
<td>Video library</td>
<td>99,137</td>
</tr>
<tr>
<td>Studio equipment</td>
<td>11,535</td>
</tr>
<tr>
<td>Computer equipment</td>
<td>21,438</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>17,029</td>
</tr>
<tr>
<td></td>
<td>1,040,114</td>
</tr>
<tr>
<td>Less accumulated amortization and depreciation</td>
<td>(561,897)</td>
</tr>
<tr>
<td></td>
<td>$478,217</td>
</tr>
</tbody>
</table>

Amortization and depreciation expense for the year ended December 31, 2014 amounted to $215,990.

NOTE 6: DEPOSITS

A security deposit in the amount of $25,740 was paid by Iridescent for their studio leases and utilities. The security deposit will be refunded to Iridescent upon expiration and termination of the leases and services.

NOTE 7: LEASE COMMITMENT

In October 2010, Iridescent entered into a lease agreement to rent a portion of the building consisting of 2,572 sq. ft. for their New York Studio location. The term of the agreement commenced on February 1, 2011 and will end on January 31, 2016.
NOTE 7: LEASE COMMITMENT (continued)

Future annual minimum lease payments are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>$64,840</td>
</tr>
<tr>
<td>2016</td>
<td>$5,412</td>
</tr>
<tr>
<td></td>
<td>$70,252</td>
</tr>
</tbody>
</table>

In May 2011, Iridescent entered into a lease agreement to rent approximately 1,438 sq. ft. of rentable space for their Los Angeles (LA) Studio location. The term of the agreement commenced on June 1, 2011 and will end on May 31, 2016.

Future annual minimum lease payments are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>$28,779</td>
</tr>
<tr>
<td>2016</td>
<td>$12,139</td>
</tr>
<tr>
<td></td>
<td>$40,918</td>
</tr>
</tbody>
</table>

In April 2012, Iridescent entered into a first amendment to the lease agreement to expand their LA Studio location premises of approximately 704 sq. ft. of rentable space. The term of the agreement commenced on May 24, 2012 and will end on May 31, 2016.

Future annual minimum lease payments are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>$13,679</td>
</tr>
<tr>
<td>2016</td>
<td>$5,770</td>
</tr>
<tr>
<td></td>
<td>$19,449</td>
</tr>
</tbody>
</table>

Rent expense for the year ended December 31, 2014 amounted to $116,732.

NOTE 8: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available to support the following:

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Curiosity Machine</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Technovation</td>
<td>$217,500</td>
</tr>
<tr>
<td></td>
<td>$1,217,500</td>
</tr>
</tbody>
</table>

NOTE 9: SUBSEQUENT EVENT

In accordance with ASC 855, subsequent events through June 1, 2015 the date of these financial statements were evaluated. There were no material subsequent events that required recognition or additional disclosure in these financial statements.
### IRIDESCENT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED DECEMBER 31, 2014**

<table>
<thead>
<tr>
<th>FEDERAL AGENCY / PASS-THROUGH GRANTOR / PROGRAM TITLE</th>
<th>CFDA NUMBER</th>
<th>OTHER ID NUMBER</th>
<th>FEDERAL EXPENDITURES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office of Naval Research (ONR)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Iridescent Family Science in New York City</td>
<td>12.300</td>
<td>N000141010961</td>
<td>$380,439</td>
</tr>
<tr>
<td>Iridescent Family Science in Los Angeles</td>
<td>12.300</td>
<td>N000141010965</td>
<td>346,669</td>
</tr>
<tr>
<td>Iridescent-ONR Technovation Challenge</td>
<td>12.300</td>
<td>N000141010964</td>
<td>319,703</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td><strong>1,046,811</strong></td>
</tr>
<tr>
<td>National Science Foundation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>National Science Foundation - Be A Scientist</td>
<td>47.076</td>
<td>DRL-1008309</td>
<td>158,170</td>
</tr>
<tr>
<td>National Science Foundation - The Curiosity Machine</td>
<td>47.076</td>
<td>DRL-1238676</td>
<td>188,989</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td><strong>347,159</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td><strong>$1,393,970</strong></td>
</tr>
</tbody>
</table>

### NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**NOTE A - BASIS OF PRESENTATION**

The Schedule of Expenditures of Federal Awards includes the federal grant activity of Iridescent and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.
Section I - Summary of Auditors' Results

Financial Statements
Type of auditors' report issued: unmodified
Internal control over financial reporting:
* Material weakness(es) identified? ______ yes ______ no
* Reportable condition(s) identified that are not considered to be material weaknesses? ______ yes ______ no
Noncompliance material to financial statements noted? ______ yes ______ no

Federal Awards
Internal control over major programs:
* Material weakness(es) identified? ______ yes ______ no
* Reportable condition(s) identified that are not considered to be material weaknesses? ______ yes ______ no
Type of auditors' report issued on compliance for major programs: unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? ______ yes ______ no

Identification of Major Programs: Type A and Type B

<table>
<thead>
<tr>
<th>CFDA Number(s) or Pass-through Number</th>
<th>Name of Federal Program or Cluster</th>
</tr>
</thead>
<tbody>
<tr>
<td>12.300</td>
<td>Department of Defense; Department of the Navy - Office of Naval Research (ONR) - Family Science</td>
</tr>
<tr>
<td>47.076</td>
<td>National Science Foundation - Be a Scientist</td>
</tr>
</tbody>
</table>

Dollar threshold used to distinguish between Type A and Type B programs: $300,000

Auditee qualified as low-risk auditee? ______ yes ______ no

Section II - Financial Statements Findings
There are no findings required to be reported in accordance with Generally Accepted Government Auditing Standards.

Section III - Federal award Findings and Questioned Costs
There are neither findings nor questioned costs for Federal awards as defined in OMB Circular A-133
Iridescent does not have a formal written Policies and Procedures manual to properly and consistently guide its employees on the following:

1) Budget, expenditure monitoring and cost transfer processes;
2) Accounting for reasonable, allowable and allocable costs in compliance with federal award requirements;
3) Budget revision procedures and related changes to award(s) requiring agency approval;
4) Formal bid collection process for high value procurement of business services and expenditures; and
5) Management approved written procedures for record retention.

**STATUS**

Iridescent has already taken action and developed a formal written policies and procedures manual covering:

1) Expenditure monitoring which includes financial reporting and review;
2) Accounting for reasonable, allowable and allocable costs;
3) Budget revisions and related changes to awards requiring agency approval;
4) Formal bid collection and procurement of services;
5) Record retention policies and procedures.

**Finding 2013-2**

Iridescent records its payroll expense bi-monthly in its Quickbooks program as one entry. The allocation of payroll by program or grant is not entered into Quickbooks (General Ledger) but kept on excel spreadsheets.

Iridescent does not have a written process to ensure that payroll expenses are entered into Quickbooks on a per grant or per program basis.

**STATUS**

Iridescent has already taken action. Starting January, 2014, Iridescent recorded the payroll in grant-project-related accounts in their accounting program. The adjusting entry is done at the end of each month as part of the closing process. The General Ledger will show the payroll amount and corresponding grant that funds the payroll. The change in recording procedure has been documented in Iridescent's Accounting Manual. Iridescent maintains the excel spreadsheets showing the payroll allocations.
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
Iridescent

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Iridescent, which comprised the statement of financial position as of December 31, 2014, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 8, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Iridescent’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Iridescent’s internal control. Accordingly, we do not express an opinion on the effectiveness of Iridescent’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of Iridescent’s financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Iridescent’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.
Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Iridescent’s internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Iridescent’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We also noted certain inconsequential matters that we reported to the management of Iridescent in a separate letter dated June 8, 2015.

This report is intended solely for the information and use of Iridescent's Board of Directors and management, federal awarding agencies and pass-through entities and is not intended to be, and should not be used by anyone other than the specified parties.

Los Angeles, California
June 8, 2015
INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors of
Iridescent

Report on Compliance for Each Major Federal Program

We have audited Iridescent’s compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of Iridescent's major federal programs for the year ended December 31, 2014. Iridescent's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of Iridescent's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Iridescent's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Iridescent's compliance.

Opinion on Each Major Federal Program

In our opinion, Iridescent complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.
Report on Internal Control Over Compliance

Management of Iridescent is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Iridescent's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Iridescent's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of the testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of Iridescent as of and for the year ended December 31, 2014, and have issued our report thereon dated June 8, 2015, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Los Angeles, California
June 8, 2015