

INSTITUTE OF NOETIC SCIENCES

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2010

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Holden & Company LLP

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Institute of Noetic Sciences
Petaluma, California

We have audited the accompanying statement of financial position of the Institute of Noetic Sciences (a nonprofit corporation) as of June 30, 2010, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Institute of Noetic Sciences' management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the prior-year summarized comparative information that was derived from the Institute of Noetic Sciences' June 30, 2009 financial statements. Those statements were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included in the prior-year summarized comparative information, is based solely on the report of the other auditor.

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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Institute of Noetic Sciences as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

HOLDEN & COMPANY LLP



Thomas J. Holden
Certified Public Accountant

San Rafael, California
March 2, 2011

INSTITUTE OF NOETIC SCIENCES
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2010
(Summarized Totals for 2009)

	2010				2009
	<u>ASSETS</u>				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
CURRENT ASSETS					
Cash	\$ 131,065	\$ 430,049	\$ 203,286	\$ 764,400	\$ 699,742
Accounts Receivable, Net of Uncollectible Accounts of \$420	75,516			75,516	69,662
Interfund Receivable (Payable)	(249,806)	249,806		0	0
Inventory	27,937			27,937	21,333
Prepaid Expenses and Deposits	23,666			23,666	27,197
Total Current Assets	8,378	679,855	203,286	891,519	817,934
FIXED ASSETS					
Fixed Assets	9,885,762			9,885,762	9,825,065
Less: Accumulated Depreciation	(2,340,289)			(2,340,289)	(2,082,811)
Net Fixed Assets	7,545,473			7,545,473	7,742,254
OTHER ASSETS					
Investments				0	186,788
Intangibles, Website	283,671			283,671	0
Total Other Assets				283,671	186,788
TOTAL ASSETS	\$ 7,837,522	\$ 679,855	\$ 203,286	\$ 8,720,663	\$ 8,746,976
<u>LIABILITIES & NET ASSETS</u>					
CURRENT LIABILITIES					
Accounts Payable	\$ 156,122			\$ 156,122	\$ 215,955
Accrued Interest on Notes	13,322			13,322	0
Accrued Vacation Payable	126,630			126,630	105,842
Deferred Revenue	81,350			81,350	48,570
Total Current Liabilities	377,424			377,424	370,367
LONG-TERM LIABILITIES:					
Note Payable, Long Term	300,000			300,000	0
Total Long-Term Liabilities	300,000			300,000	0
TOTAL LIABILITIES	\$ 677,424			\$ 677,424	\$ 370,367
<u>NET ASSETS</u>					
Unrestricted Net Assets	\$ 7,160,098			\$ 7,160,098	\$ 7,360,095
Temporarily Restricted		679,855		679,855	829,955
Permanently Restricted			203,286	203,286	186,559
Total Net Assets	7,160,098	679,855	203,286	\$ 8,043,239	\$ 8,376,609
TOTAL LIABILITIES AND NET ASSETS	\$ 7,837,522	\$ 679,855	\$ 203,286	\$ 8,720,663	\$ 8,746,976

INSTITUTE OF NOETIC SCIENCES
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010
(Summarized Totals for 2009)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2010</u>	<u>Total 2009</u>
REVENUES, GAINS, AND OTHER SUPPORT					
SUPPORT					
Contributions	\$ 1,000,794	\$ 458,359		\$ 1,459,153	\$ 1,167,239
Memberships	974,708			974,708	1,252,340
Total Support	<u>1,975,502</u>	<u>458,359</u>		<u>2,433,861</u>	<u>2,419,579</u>
REVENUES					
Mailing List Rentals, Net	3,311			3,311	14,055
Facility Rentals	976,477			976,477	1,087,973
Conferences and Events	51,047			51,047	23,339
Interest and Dividends	2,699	2,481	526	5,706	16,849
Gains & (Losses)			16,201	16,201	(36,130)
Sales of Books, CDs and DVDs, Net	14,459			14,459	16,459
Royalties, Fees, & Other	58,191			58,191	26,238
Total Revenues	<u>1,106,184</u>	<u>2,481</u>	<u>16,727</u>	<u>1,125,392</u>	<u>1,148,783</u>
TOTAL SUPPORT AND REVENUES	3,081,686	460,840	16,727	3,559,253	3,568,362
EXPENSES					
PROGRAM SERVICES					
Research	434,494			434,494	524,524
Education	2,490,496			2,490,496	3,104,167
Eco Design	61,759			61,759	24,796
Total Program Services	<u>2,986,749</u>			<u>2,986,749</u>	<u>3,653,487</u>
SUPPORTING SERVICES					
Management and General	434,324			434,324	343,547
Fundraising	471,550			471,550	551,281
Total Supporting Services	<u>905,874</u>			<u>905,874</u>	<u>894,828</u>
TOTAL EXPENSES	<u>3,892,623</u>			<u>3,892,623</u>	<u>4,548,315</u>
Contributions Released from Restrictions	<u>610,940</u>	<u>(610,940)</u>		<u>0</u>	<u>0</u>
CHANGE IN NET ASSETS	(199,997)	(150,100)	16,727	(333,370)	(979,953)
NET ASSETS AT BEGINNING OF YEAR	<u>7,360,095</u>	<u>829,955</u>	<u>186,559</u>	<u>8,376,609</u>	<u>9,356,562</u>
NET ASSETS AT END OF YEAR	<u>\$ 7,160,098</u>	<u>\$ 679,855</u>	<u>\$ 203,286</u>	<u>\$ 8,043,239</u>	<u>\$ 8,376,609</u>

See Independent Auditor's Report and Notes to Financial Statements.

INSTITUTE OF NOETIC SCIENCES
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2010

	PROGRAM SERVICES				SUPPORTING SERVICES				Total Expenditures
	Research	Education	Eco Design	Total Program Services	Mgmt & General	Fundraising	Total Supporting Services	Total Expenditures	
Salaries	\$ 223,252	\$ 1,110,192	\$ 33,573	\$ 1,367,017	\$ 269,155	\$ 260,619	\$ 529,774	\$ 1,896,791	
Occupancy	14,595	313,793	10,946	339,334	7,298	18,244	25,542	364,876	
Retreats and Events	2,037	233,886		235,923	(2,672)	58,325	55,653	291,576	
Depreciation	10,299	221,431	7,724	239,454	5,150	12,874	18,024	257,478	
Employee Benefits	25,452	126,569	3,828	155,849	30,685	29,712	60,397	216,246	
Payroll Taxes	20,512	102,002	3,085	125,599	24,729	23,945	48,674	174,273	
Outreach	1,393	88,155		89,548	1,175	9,072	10,247	99,795	
Grants and Honoraria	88,578	10,000		98,578			0	98,578	
Data and Telecomm	8,312	76,416	1,268	85,996	2,064	2,503	4,567	90,563	
Printing and Publications	5,450	68,831		74,281	412	3,075	3,487	77,768	
Postage and Mailing	1,816	64,924		66,740	2,813	2,030	4,843	71,583	
Office	8,137	31,360	1,007	40,504	18,434	4,183	22,617	63,121	
Bank Fees	792	6,626	23	7,441	7,302	44,399	51,701	59,142	
Professional Fees	367	7,886	275	8,528	39,231	459	39,690	48,218	
Research & Education	10,569	25,996		36,565			0	36,565	
Travel	12,933	2,009	30	14,972	15,148	2,110	17,258	32,230	
Interest				0	13,400		13,400	13,400	
Uncollectible Accounts		420		420			0	420	
Total Functional Expenses	\$ 434,494	\$ 2,490,496	\$ 61,759	\$ 2,986,749	\$ 434,324	\$ 471,550	\$ 905,874	\$ 3,892,623	

INSTITUTE OF NOETIC SCIENCES
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2010
(Summarized Totals for 2009)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (333,370)	\$ (979,953)
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Depreciation	257,478	274,686
Changes In Assets & Liabilities		
(Increase) Decrease In Accounts Receivable	(5,854)	(75)
(Increase) Decrease In Inventory	(6,604)	42,195
(Increase) Decrease In Prepaid Expense and Deposits	3,532	(17,314)
Increase (Decrease) In Accounts Payable	(59,833)	74,293
Increase (Decrease) In Accrued Interest on Notes	13,322	0
Increase (Decrease) In Accrued Vacation Payable	20,788	269
Increase (Decrease) In Deferred Revenue	32,780	(95,809)
Net Cash Provided (Used) in Operating Activities	(77,761)	(701,708)
CASH FLOWS USED IN FINANCING ACTIVITIES		
Principal Payment of Notes Payable	0	(24,606)
Principal Draws on Lines of Credit	550,000	0
Principal Payments of Lines of Credit	(250,000)	0
Net Cash Provided (Used) in Financing Activities	300,000	(24,606)
CASH FLOWS PROVIDED (USED) IN INVESTING ACTIVITIES		
Unrealized Loss in Investments	0	36,130
Liquidation of Investments	186,788	0
Development of Website	(283,671)	0
Purchase of Fixed Assets	(60,698)	(131,520)
Net Cash Provided (Used) in Investing Activities	(157,581)	(95,390)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	64,658	(821,704)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	699,742	1,521,446
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 764,400	\$ 699,742

INSTITUTE OF NOETIC SCIENCES
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Institute of Noetic Sciences (the Organization), founded in 1973, is a non-profit corporation whose purpose is to explore consciousness for a world awakening through frontier science, personal inquiry and learning communities. The Organization's activities include operating a transformative learning center and research laboratory, catalyzing learning communities, developing essential curriculum, creating integrated multimedia communications, demonstrating sustainable ecology, expanding its global membership and inspiring public dialog. The public is educated about the latest findings in these areas through publications, conferences, and the Organization's website. The Organization receives the majority of its funding through private contributions, membership dues and a transformative learning center.

Programs and activities include:

Research – Providing small grants for leading-edge scientific and scholarly research.

Education – Includes lectures, conferences, books, research reports and monographs by leading scientists, philosophers and scholars.

Membership Activities – Offering opportunities for individuals to blend available knowledge with their own experiences. Members are invited to participate in local groups, lectures and field research.

Eco-Design – Includes the design of a demonstration center of regenerative design and sustainable practices.

Method of Accounting

The accrual method of accounting is used for financial statement purposes.

Depreciation and Capitalization

Fixed assets are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, ranging from three to thirty years. Donated artwork is held on the books at its estimated fair market value at the date of donation, and, in accordance with Generally Accepted Accounting Principles (GAAP) is not depreciated. Depreciation expense for the years ended June 30, 2010 and 2009, was \$257,478 and \$274,686, respectively.

Maintenance and repairs are charged to operations when incurred. When property or equipment is sold or otherwise disposed of, the asset account and related accumulated depreciation account are reduced, and any gain or loss is included in operations.

Whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, management reviews the carrying amount of the asset to determine if there has been impairment. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the undiscounted future net cash flows expected to be generated by that asset. If the carrying amount of an asset exceeds its estimated future undiscounted cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Management of the Organization believes that its long-lived assets are recoverable over the remaining useful lives.

INSTITUTE OF NOETIC SCIENCES
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

Recognition of Revenue and Expenses

Revenue is recorded when earned and expenditures when incurred.

Accounts Receivable

Receivables are considered past due after 30 days.

Functional Expenditures

The organization reports its expenditures on a functional basis. Expenditures that are common to several functions are allocated among the pertinent functions.

Contributed Services

No amounts have been reflected in the financial statement for donated services. The Organization generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Organization, but these services do not meet the criteria for recognition as contributed services.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

Contributions

Contributions received are considered available and unrestricted for the general program unless temporarily or permanently restricted by the donor and are reflected in net assets as such. Funds are considered temporarily restricted if the donor imposes a restriction, which will either expire by the passage of time or will be fulfilled and removed, by actions of the Organization pursuant to those stipulations. At the time of fulfillment, those contributions are removed from the temporarily restricted category and are then considered unrestricted. As to permanently restricted assets, the donor-imposed restriction stipulates that such contributions be maintained permanently, but the Organization is allowed to use the income derived from such assets or fixed percentage of the fund. Donated property is recorded in the financial statements at the estimated fair market value at the date of receipt.

Inventories

Inventories are stated at the lower of cost or market with the average cost method for promotional merchandise and perpetual method for the retreat center bookstore. Inventories consist of promotional merchandise and the retreat center bookstore.

Intangible Assets

Intangible assets consist of development expenses for the new website for the Organization. The website was not in operation as of June 30, 2010; thus no amortization has been calculated.

INSTITUTE OF NOETIC SCIENCES
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

Sales Tax

Gross receipts are shown net of sales tax collected.

Vacation/Sick Pay

Vacation and sick pay's monthly accrual rate is based on each employee's length of employment. Both are accrued by the organization and are carried over to the next year, but only vacation time is guaranteed. The accrued balances for the years ended June 30, 2010 and 2009, was \$126,630 and \$105,842, respectively.

Bad Debt

The Organization elects to record bad debt using the direct write-off method. GAAP requires that the allowance method be used to reflect bad debts. However, the effect of the use of the direct write-off method is not materially different from the result that would be obtained had the allowance method been followed.

Income Taxes

The Organization is a not-for-profit organization that is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and California franchise tax under Section 23701(d) of the Revenue and Taxation Code. The Organization used the same accounting methods for tax and financial reporting.

GAAP provides accounting and disclosure guidance about positions taken by the organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Organization in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. The Organization's returns for the years ended June 30, 2007, 2008 and 2009, are subject to examination by federal and state taxing authorities, generally for three years after they are filed.

NOTE 2 - CASH

The organization does not have any cash equivalents.

The Organization utilizes two banks to deposit cash funds. The Federal Deposit Insurance Corporation (FDIC), insured these accounts, to the extent that the accounts in any one bank did not exceed \$250,000. On June 30, 2010 the accounts exceeded \$250,000 by \$369,568. Such funds were at risk in the event of insolvency of the banking institutions.

INSTITUTE OF NOETIC SCIENCES
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

NOTE 3 – INVENTORIES

Inventories at June 30, 2010 and 2009, consist of the following:

	2010		
	<u>Cost</u>	<u>Market</u>	<u>Lowest of Cost or Market</u>
Premium Merchandise	\$ 56,539	\$ 19,789	\$ 19,789
Retreat Center Bookstore	<u>8,148</u>	<u>16,297</u>	<u>8,148</u>
	<u>\$ 64,687</u>	<u>\$ 36,086</u>	<u>\$ 27,937</u>
	2009		
	<u>Cost</u>	<u>Market</u>	<u>Lowest of Cost or Market</u>
Premium Merchandise	\$ 58,140	\$ 21,333	\$ 21,333

The Organization developed multi-media material from their research activities; some were offered to members as gifts (premium merchandise) and some were held for sale. Management estimates the market value of the premium merchandise at 35% of cost at June 30, 2010.

NOTE 4 – FIXED ASSETS

Fixed assets at June 30, 2010 consist of the following:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Land	\$ 4,800,000	\$ 0	\$ 4,800,000
Buildings and Improvements	4,486,757	1,838,171	2,648,586
Furniture and Equipment	544,758	475,975	68,783
Trucks and Automobiles	50,447	26,143	24,304
Artwork	<u>3,800</u>	<u>0</u>	<u>3,800</u>
	<u>\$ 9,885,762</u>	<u>\$ 2,340,289</u>	<u>\$ 7,545,473</u>

NOTE 5 - INVESTMENTS

Investments include an interest in Fundamental Investors L.P. and a money market account at Edward Jones. As the partnership interest is not publically held, a market value is not evident and the capital account is reported. Investments at June 30, 2009, consist of the following:

Fundamental Investors L.P.	\$ 186,559
Edward Jones Money Market	<u>229</u>
	<u>\$ 186,788</u>

The organization had a \$16,201 gain from the liquidation of their interest in Fundamental Investors L.P. in the year ended June 30, 2010.

INSTITUTE OF NOETIC SCIENCES
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

NOTE 6 – RELATED PARTY TRANSACTIONS

The organization has two lines of credit with George Zimmer, a board member. One line is a revolving line of credit available up to \$500,000. The other line of credit (Infrastructure Loan) was available for draws up to \$500,000 until June 30, 2010. Both loans have an interest rate of 5% with interest payable on June 30th of each calendar year commencing on June 30, 2010. The principal and unpaid interest is payable in full on June 30, 2014. Both loans are secured by the land and buildings of the organization. The revolving line of credit has no balance at June 30, 2010. The infrastructure loan principal balance and accrued interest payable to George Zimmer is \$300,000 and \$13,322, respectively at June 30, 2010.

NOTE 7 – NET ASSETS

Net assets are the Organization's residual interest in their assets remaining after their liabilities are deducted. Net assets are categorized by unrestricted, temporarily restricted and permanently restricted relating to such restrictions imposed by their contributors discussed in Note 1.

NOTE 8 – NET ASSETS RELEASED FROM RESTRICTIONS

This activity reflects those contributions previously temporarily restricted but have met those requirements described in Note 1 to become released from restrictions. At June 30, 2010 net assets released from restrictions for research activity expenses is \$610,940.

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2010 and 2009 consist of contributions received, which are restricted for the following purposes:

	<u>2010</u>	<u>2009</u>
Research	\$ 646,042	\$ 762,959
Donor Advised Funds	<u>33,813</u>	<u>66,996</u>
	<u>\$ 679,855</u>	<u>\$ 829,955</u>

NOTE 10 – PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets as of June 30, 2010 consist of cash in the amount of \$203,286.

NOTE 11 - LEASE

The Organization paid \$80,063 for operating leases, which are month to month as of June 30, 2010.

INSTITUTE OF NOETIC SCIENCES
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

NOTE 12 – COST OF GOODS SOLD

Sales of books, CDs & DVDs are shown net of cost of goods sold on the statement of activities. Sales and cost of goods sold at June 30, 2010 consist of the following:

	<u>2010</u>	<u>2009</u>
Gross Sales	\$ 17,117	\$ 16,459
Cost of Goods Sold	<u>2,658</u>	<u>0</u>
Net Sales	<u>\$ 14,459</u>	<u>\$ 16,459</u>

NOTE 13 – CONTINGENT LIABILITY

Pursuant to the terms of a contribution agreement, the Organization is obligated to donate the amount of \$504,560 to a non-profit organization in the event of sale of land located at their premises prior to October 25, 2017.

NOTE 14 – EVALUATION OF SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through March 2, 2010, the date which the financial statements were available to be issued.