

INSTITUTE OF NOETIC SCIENCES
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 and 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 statements of financial position of the Institute of Noetic Sciences (a nonprofit corporation) as of June 30, 2011 and 2010 and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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, 2011 and 2010 and the changes in its net assets and its cash flows for the years 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
January 15, 2012

INSTITUTE OF NOETIC SCIENCES
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2011 and 2010

	2011				2010
	<u>ASSETS</u>				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
CURRENT ASSETS					
Cash	\$ 431,853	\$ 527,755	\$ 203,795	\$ 1,163,403	\$ 764,400
Accounts Receivable, Net of Uncollectible Accounts of \$420	84,376			84,376	75,516
Interfund Receivable (Payable)	(234,869)	234,869		-	0
Inventory	30,992			30,992	27,937
Prepaid Expenses and Deposits	26,489			26,489	23,666
Total Current Assets	338,841	762,624	203,795	1,305,260	891,519
FIXED ASSETS					
Fixed Assets	10,245,748			10,245,748	9,885,762
Less: Accumulated Depreciation	(2,606,680)			(2,606,680)	(2,340,289)
Net Fixed Assets	7,639,068			7,639,068	7,545,473
OTHER ASSETS					
Intangibles, Net of Accumulated Amortization of \$91,739	238,522			238,522	283,671
TOTAL ASSETS	<u>\$ 8,216,431</u>	<u>\$ 762,624</u>	<u>\$ 203,795</u>	<u>\$ 9,182,850</u>	<u>\$ 8,720,663</u>
	<u>LIABILITIES & NET ASSETS</u>				
CURRENT LIABILITIES					
Accounts Payable	\$ 165,314			\$ 165,314	\$ 156,122
Accrued Interest on Notes	35,414			35,414	13,322
Accrued Vacation Payable	144,043			144,043	126,630
Deferred Revenue	390,895			390,895	81,350
Total Current Liabilities	735,666			735,666	377,424
LONG-TERM LIABILITIES:					
Note Payable, Long Term	875,000			875,000	300,000
Total Long-Term Liabilities	875,000			875,000	300,000
TOTAL LIABILITIES	<u>\$ 1,610,666</u>			<u>\$ 1,610,666</u>	<u>\$ 677,424</u>
	<u>NET ASSETS</u>				
Unrestricted Net Assets	\$ 6,605,765			\$ 6,605,765	\$ 7,160,098
Temporarily Restricted		762,624		762,624	679,855
Permanently Restricted			203,795	203,795	203,286
TOTAL NET ASSETS	6,605,765	762,624	203,795	\$ 7,572,184	\$ 8,043,239
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,216,431</u>	<u>\$ 762,624</u>	<u>\$ 203,795</u>	<u>\$ 9,182,850</u>	<u>\$ 8,720,663</u>

INSTITUTE OF NOETIC SCIENCES
STATEMENT OF ACTIVITIES
YEARS ENDED JUNE 30, 2011 and 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2011	Total 2010
REVENUES, GAINS, AND OTHER SUPPORT					
SUPPORT					
Contributions	\$ 955,732	\$ 619,469		\$ 1,575,201	\$ 1,459,153
Memberships	693,860			693,860	974,708
Total Support	1,649,592	619,469		2,269,061	2,433,861
REVENUES					
Mailing List Rentals, Net	1,701			1,701	3,311
Facility Rentals	1,688,289			1,688,289	976,477
Conferences and Events	0			0	51,047
Interest and Dividends	1,895	1,465	509	3,869	5,706
Gains & (Losses)					16,201
Sales of Books, CDs and DVDs, Net	29,805			29,805	14,459
Royalties, Fees, & Other	63,496	(2,925)		60,571	58,191
Total Revenues	1,785,186	(1,460)	509	1,784,235	1,125,392
TOTAL SUPPORT AND REVENUES	3,434,778	618,009	509	4,053,296	3,559,253
EXPENSES					
PROGRAM SERVICES					
Research	551,117			551,117	434,494
Education	2,998,791			2,998,791	2,490,496
Eco Design	44,191			44,191	61,759
Total Program Services	3,594,099			3,594,099	2,986,749
SUPPORTING SERVICES					
Management and General	460,138			460,138	434,324
Fundraising	470,114			470,114	471,550
Total Supporting Services	930,252			930,252	905,874
TOTAL EXPENSES	4,524,351			4,524,351	3,892,623
Contributions Released from Restrictions	535,240	(535,240)		0	0
CHANGE IN NET ASSETS	(554,333)	82,769	509	(471,055)	(333,370)
NET ASSETS AT BEGINNING OF YEAR	7,160,098	679,855	203,286	8,043,239	8,376,609
NET ASSETS AT END OF YEAR	\$ 6,605,765	\$ 762,624	\$ 203,795	\$ 7,572,184	\$ 8,043,239

INSTITUTE OF NOETIC SCIENCES
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2011

	PROGRAM SERVICES				SUPPORTING SERVICES			
	Research	Education	Eco Design	Total Program Services	Mgmt & General	Fundraising	Total Supporting Services	Total Expenditures
Salaries	\$ 248,272	\$ 1,272,886	\$ 22,400	\$ 1,543,558	\$ 248,064	\$ 282,495	\$ 530,559	\$ 2,074,117
Occupancy	24,290	305,926	8,478	338,694	12,796	18,892	31,688	370,382
Retreats and Events	4,589	330,166	0	334,755	15,539	38,711	54,250	389,005
Depreciation	10,655	229,095	7,992	247,742	5,328	13,320	18,648	266,390
Employee Benefits	27,858	142,826	2,513	173,197	27,834	31,698	59,532	232,729
Payroll Taxes	22,442	115,059	2,025	139,526	22,423	25,535	47,958	187,484
Outreach	0	101,136	0	101,136	465	4,705	5,170	106,306
Grants and Honoraria	155,775	128,096	0	283,871	402	0	402	284,273
Data and Telecomm	42,952	209,999	7	252,958	12,315	27,333	39,648	292,606
Printing and Publications	1,251	45,219	0	46,470	524	1,477	2,001	48,471
Postage and Mailing	606	60,004	28	60,638	4,930	440	5,370	66,008
Office	4,694	25,344	718	30,756	21,089	2,204	23,293	54,049
Merchant Service Fees	176	24,685	0	24,861	0	20,092	20,092	44,953
Professional Fees	0	3,157	0	3,157	49,586	0	49,586	52,743
Travel	7,557	5,193	30	12,780	20	3,212	3,232	16,012
Interest	0	0	0	0	38,823	0	38,823	38,823
Total Functional Expenses	\$ 551,117	\$ 2,998,791	\$ 44,191	\$ 3,594,099	\$ 460,138	\$ 470,114	\$ 930,252	\$ 4,524,351

INSTITUTE OF NOETIC SCIENCES
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (471,055)	\$ (333,370)
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Depreciation	266,390	257,478
Amortization	91,739	0
Changes In Assets & Liabilities		
(Increase) Decrease In Accounts Receivable	(8,860)	(5,854)
(Increase) Decrease In Inventory	(3,055)	(6,604)
(Increase) Decrease In Prepaid Expense and Deposits	(2,824)	3,532
Increase (Decrease) In Accounts Payable	9,193	(59,833)
Increase (Decrease) In Accrued Interest on Notes	22,092	13,322
Increase (Decrease) In Accrued Vacation Payable	17,413	20,788
Increase (Decrease) In Deferred Revenue	309,545	32,780
Net Cash Provided (Used) in Operating Activities	<u>230,578</u>	<u>(77,761)</u>
CASH FLOWS USED IN FINANCING ACTIVITIES		
Principal Draws on Lines of Credit	575,000	550,000
Principal Payments on Lines of Credit	<u>0</u>	<u>(250,000)</u>
Net Cash Provided (Used) in Financing Activities	575,000	300,000
CASH FLOWS PROVIDED (USED) IN INVESTING ACTIVITIES		
Liquidation of Investments	0	186,788
Development of Website	(46,590)	(283,671)
Purchase of Fixed Assets	<u>(359,985)</u>	<u>(60,698)</u>
Net Cash Provided (Used) in Investing Activities	(406,575)	(157,581)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	399,003	64,658
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>764,400</u>	<u>699,742</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 1,163,403</u></u>	<u><u>\$ 764,400</u></u>

Supplemental Disclosures of Cash Flow Information:

Interest Expense	\$ 13,400	\$ 0
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INSTITUTE OF NOETIC SCIENCES
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 and 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 mission is to broaden the knowledge of the nature and potentials of the mind and consciousness and to apply that knowledge to enhancing human well-being and the quality of life on the planet. 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, 2011 and 2010, was \$266,390 and \$257,478, 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
YEARS ENDED JUNE 30, 2011 and 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 website for the Organization. Amortization is computed using the straight-line method over the estimated useful life of three years with no residual value. Amortization expense for the year ended June 30, 2011 was \$91,739.

INSTITUTE OF NOETIC SCIENCES
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 and 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, 2011 and 2010, was \$144,043 and \$126,630 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, 2008, 2009 and 2010, 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, 2011 the accounts exceeded \$250,000 by \$773,792. Such funds were at risk in the event of insolvency of the banking institutions.

INSTITUTE OF NOETIC SCIENCES
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 and 2010

NOTE 3 – INVENTORIES

Inventories at June 30, 2011 and 2010, consist of the following:

	2011		
	<u>Cost</u>	<u>Market</u>	<u>Lowest of Cost or Market</u>
Premium Merchandise	\$ 55,296	\$ 19,354	\$ 19,354
Retreat Center Bookstore	<u>11,638</u>	<u>25,664</u>	<u>11,638</u>
	<u>\$ 66,934</u>	<u>\$ 45,018</u>	<u>\$ 30,992</u>

	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>

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, 2011 and 2010.

NOTE 4 – FIXED ASSETS

Fixed assets at June 30, 2011 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	4,827,205	2,057,240	2,769,965
Furniture and Equipment	564,295	515,673	48,622
Trucks and Automobiles	50,448	33,767	16,681
Artwork	<u>3,800</u>	<u>0</u>	<u>3,800</u>
	<u>\$ 10,245,748</u>	<u>\$ 2,606,680</u>	<u>\$ 7,639,068</u>

NOTE 5 – 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, additional draws were allowed in the current fiscal year due to an agreement with George Zimmer. 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 principal balance was \$500,000 at June 30, 2011. The infrastructure loan principal balance for the years ended June 30, 2011 and 2010, was \$375,000 and \$300,000 respectively. Accrued interest payable for the years ended June 30, 2011 and 2010, was \$35,414.09 and \$13,322 respectively.

INSTITUTE OF NOETIC SCIENCES
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 and 2010

NOTE 6 – 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 7 – 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, 2011 net assets released from restrictions for was \$535,240.

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2011 and 2010 consist of contributions received, which are restricted for the following purposes:

	<u>2011</u>	<u>2010</u>
Research	\$ 711,836	\$ 646,042
Donor Advised Funds	<u>50,788</u>	<u>33,813</u>
	<u>\$ 762,624</u>	<u>\$ 679,855</u>

NOTE 9 – PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets as of June 30, 2011 and 2010 consist of cash in the amount of \$203,795 and \$203,286 respectively.

NOTE 11 – LEASE INCOME

The Organization leases office space to other organizations that closely align with their charitable goals. Lease income was \$37,792 and \$11,784 for years ended June 30, 2011 and 2010 respectively. The leases are mostly month to month with one exception at June 30, 2011. The Organization will receive a minimum of \$23,982 from that lease for the fiscal year ended June 30, 2012.

INSTITUTE OF NOETIC SCIENCES
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 and 2010

NOTE 11 – LEASE EXPENSE

The Organization paid \$101,927 and \$80,063 for operating leases for the year ended June 30, 2011 and 2010 respectively. The Organization has the following minimum lease payments for the next five fiscal years for office space:

<u>Year Ended</u>	<u>Amount</u>
June 30, 2012	\$ 95,772
June 30, 2013	\$ 98,592
June 30, 2014	\$ 107,040
June 30, 2015	\$ 109,860
June 30, 2016	\$ 109,860

NOTE 12 – COST OF GOODS SOLD

Sales of books, CDs & DVDs are shown net of cost of goods sold on the statement of activities. In the year ended June 30, 2011 the Organization started to sell digital copies of material through their online store, which has no inventory cost. Sales and cost of goods sold at June 30, 2011 and 2010 consist of the following:

	<u>2011</u>	<u>2010</u>
Digital Sales	\$ 9,988	\$ 0
Physical Sales	41,577	17,117
Cost of Goods Sold	<u>21,760</u>	<u>2,658</u>
Net Sales	<u>\$ 29,805</u>	<u>\$ 14,459</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 January 15, 2012, the date which the financial statements were available to be issued.