

INSTITUTE OF NOETIC SCIENCES
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014 AND 2013

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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 financial statements of Institute of Noetic Sciences (a nonprofit organization), which comprise the statements of financial position as of June 30, 2014 and 2013 and the related statements of activities, functional expenses, and cash flows for the years 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 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 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 financial statements are free from 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 auditor's 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 the entity'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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

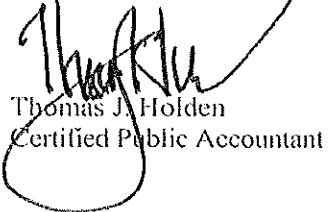
Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Institute of Noetic Science as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter Regarding Restatement of Prior Year

The previously issued financial statements for the period ended June 30, 2013 have been restated for the correction of a material reclassification in the respective period. As discussed in Note 15 to the financial statements, the Organization has reclassified membership support to contributions support. Our opinion is not modified with respect to this matter.

HOLDEN & COMPANY LLP

A handwritten signature in black ink, appearing to read 'Thomas J. Holden', written over a circular stamp or seal.

Thomas J. Holden
Certified Public Accountant

San Rafael, California
April 28, 2015

INSTITUTE OF NOETIC SCIENCES
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2014 AND 2013

	2014				2013
	<u>ASSETS</u>				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
CURRENT ASSETS					
Cash	\$ 337,161	\$ 311,426	\$ 27,774	\$ 676,361	\$ 472,073
Accounts Receivable	176,961			176,961	130,969
Interfund Receivable (Payable)	(182,570)	(17,430)	200,000	0	0
Inventory	25,956			25,956	32,875
Prepaid Expenses and Deposits	60,409			60,409	71,685
Total Current Assets	417,917	293,996	227,774	939,687	707,602
FIXED ASSETS					
Fixed Assets	11,156,681			11,156,681	10,896,338
Less: Accumulated Depreciation	(3,423,116)			(3,423,116)	(3,160,977)
Net Fixed Assets	7,733,565			7,733,565	7,735,361
OTHER ASSETS					
Intangibles, Net of Accumulated Amortization of \$330,261	0			0	17,434
TOTAL ASSETS	\$ 8,151,482	\$ 293,996	\$ 227,774	\$ 8,673,252	\$ 8,460,397
<u>LIABILITIES & NET ASSETS</u>					
CURRENT LIABILITIES					
Accounts Payable	\$ 203,249			\$ 203,249	\$ 221,136
Accrued Interest on Notes	23,055			23,055	9,808
Accrued Vacations	114,956			114,956	134,819
Notes Payable	1,640,000			1,640,000	1,400,000
Deferred Revenue	150,100			150,100	393,678
Total Current Liabilities	2,131,360			2,131,360	2,159,441
TOTAL LIABILITIES	\$ 2,131,360			\$ 2,131,360	\$ 2,159,441
<u>NET ASSETS</u>					
Unrestricted Net Assets	\$ 6,020,122			\$ 6,020,122	\$ 5,565,262
Temporarily Restricted		293,996		293,996	517,920
Permanently Restricted			227,774	227,774	217,774
TOTAL NET ASSETS	6,020,122	293,996	227,774	\$ 6,541,892	\$ 6,300,956
TOTAL LIABILITIES AND NET ASSETS	\$ 8,151,482	\$ 293,996	\$ 227,774	\$ 8,673,252	\$ 8,460,397

INSTITUTE OF NOETIC SCIENCES
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2014 AND 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2014</u>	<u>Total 2013</u>
REVENUES, GAINS, AND OTHER SUPPORT					
SUPPORT					
Contributions	\$ 1,996,174	\$ 672,819		\$ 2,668,993	\$ 1,731,490
REVENUES					
Mailing List Rentals, Net	0			0	408
Facility Rentals	2,177,097			2,177,097	2,046,785
Conferences and Events	9,309			9,309	0
Interest and Dividends	430	0		430	724
Interfund Interest	(10,000)		\$ 10,000	0	0
Sales of Books, CDs and DVDs, Net	84,227			84,227	88,406
Royalties, Fees, & Other	125,553	28,230		153,783	188,453
Total Revenues	<u>2,386,616</u>	<u>28,230</u>	<u>10,000</u>	<u>2,424,846</u>	<u>2,324,776</u>
TOTAL SUPPORT AND REVENUES	4,382,790	701,049	10,000	5,093,839	4,056,266
EXPENSES					
PROGRAM SERVICES					
Research	675,127			675,127	623,021
Education	2,939,340			2,939,340	2,945,593
Eco Design	30,401			30,401	23,241
Total Program Services	<u>3,644,868</u>			<u>3,644,868</u>	<u>3,591,855</u>
SUPPORTING SERVICES					
Management and General	583,215			583,215	543,196
Fundraising	624,820			624,820	315,175
Total Supporting Services	<u>1,208,035</u>			<u>1,208,035</u>	<u>858,371</u>
TOTAL EXPENSES	<u>4,852,903</u>			<u>4,852,903</u>	<u>4,450,226</u>
Contributions Released from Restrictions	<u>924,973</u>	<u>(924,973)</u>		<u>0</u>	<u>0</u>
CHANGE IN NET ASSETS	454,860	(223,924)	10,000	240,936	(393,960)
NET ASSETS AT BEGINNING OF YEAR	<u>5,565,262</u>	<u>517,920</u>	<u>217,774</u>	<u>6,300,956</u>	<u>6,694,916</u>
NET ASSETS AT END OF YEAR	<u>\$ 6,020,122</u>	<u>\$ 293,996</u>	<u>\$ 227,774</u>	<u>\$ 6,541,892</u>	<u>\$ 6,300,956</u>

INSTITUTE OF NOETIC SCIENCES
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2014

	PROGRAM SERVICES				SUPPORTING SERVICES			Total Expenditures
	Research	Education	Eco Design	Total Program Services	Mgmt & General	Fundraising	Total Supporting Services	
Salaries	314,952	1,378,963	23,831	\$ 1,717,746	256,556	172,612	\$ 429,168	\$ 2,146,914
Occupancy	94,504	360,272	2,120	456,896	36,002	15,740	51,742	508,638
Retreats and Events	13,753	404,494	0	418,247	33,937	29,312	63,249	481,496
Professional Fees	85	42,379	0	42,464	64,435	230,649	295,084	337,548
Depreciation	9,000	239,503	0	248,503	12,136	1,500	13,636	262,139
Employee Benefits	35,326	154,668	2,673	192,667	28,776	19,359	48,135	240,802
Grants and Honoraria	157,269	29,112	0	186,381	9,996	0	9,996	196,377
Payroll Taxes	23,482	102,813	1,777	128,072	19,128	12,870	31,998	160,070
Data and Telecomm	1,932	105,616	0	107,548	0	27,373	27,373	134,921
Interest	0	0	0	0	97,871	0	97,871	97,871
Office	7,745	72,694	0	80,439	10,380	3,458	13,838	94,277
Printing and Publications	2,667	2,705	0	5,372	4,694	43,053	47,747	53,119
Merchant Service Fees	0	19,735	0	19,735	2,339	27,140	29,479	49,214
Travel	11,779	10,816	0	22,595	6,965	4,537	11,502	34,097
Outreach	0	14,942	0	14,942	0	16,739	16,739	31,681
Postage and Mailing	2,633	628	0	3,261	0	20,478	20,478	23,739
Total Functional Expenses	\$ 675,127	\$ 2,939,340	\$ 30,401	\$ 3,644,868	\$ 583,215	\$ 624,820	\$ 1,208,035	\$ 4,852,903
				75%	12%	13%		100%

INSTITUTE OF NOETIC SCIENCES
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 240,936	\$ (393,960)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) in Operating Activities:		
Depreciation	262,139	279,581
Amortization	17,434	111,000
Changes In Assets & Liabilities		
(Increase) Decrease In Accounts Receivable	(45,992)	(53,875)
(Increase) Decrease In Inventory	6,919	3,669
(Increase) Decrease In Prepaid Expense and Deposits	11,276	(61,816)
Increase (Decrease) In Accounts Payable	(17,887)	(13,947)
Increase (Decrease) In Accrued Interest on Notes	13,247	9,712
Increase (Decrease) In Accrued Vacation Payable	(19,863)	11,589
Increase (Decrease) In Deferred Revenue	(243,578)	223,441
Net Cash Provided (Used) in Operating Activities	224,631	115,394
CASH FLOWS USED IN FINANCING ACTIVITIES		
Issuance of Promissory Notes	240,000	400,000
Net Cash Provided (Used) in Financing Activities	240,000	400,000
CASH FLOWS PROVIDED (USED) IN INVESTING ACTIVITIES		
Disposal of Automobile	0	(7,300)
Purchase of Fixed Assets	(260,343)	(362,685)
Net Cash Provided (Used) in Investing Activities	(260,343)	(369,985)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	204,288	145,409
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	472,073	326,664
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 676,361	\$ 472,073

Supplemental Disclosures of Cash Flow Information:

	Interest Expense	\$	97,871	\$	71,520
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INSTITUTE OF NOETIC SCIENCES
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014 and 2013

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Institute of Noetic Sciences (the Organization), founded in 1973, is a non-profit organization dedicated to supporting individual and collective transformation through consciousness research, transformative learning, and engagement of a global community in the realization of human potential.

The Organization conducts, advances, and broadens the science of what connects us, reaching new understandings about the nature of reality and extended human capacities. From what is learned, the Organization creates real-world tools that empower people to apply conscious awareness in their personal lives, and in healthcare, education, and business.

The Organization hosts a vibrant community of explorers and change agents who are working together to make a difference in the world.

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, 2014 and 2013, was \$262,139 and \$279,581 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.

Recognition of Revenue and Expenses

Revenue is recorded when earned and expenditures when incurred.

Accounts Receivable

Receivables are considered past due after 30 days.

INSTITUTE OF NOETIC SCIENCES
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014 and 2013

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2014 and 2013, was \$17,434 and \$111,000, respectively.

Sales Tax

Gross receipts are shown net of sales tax collected.

INSTITUTE OF NOETIC SCIENCES
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014 and 2013

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2014 and 2013, were \$114,956 and \$134,819, 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, 2011, 2012 and 2013, 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 maintains its cash in bank accounts which, at times may exceed federally insured limits. 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, 2014 the accounts exceeded \$250,000 by \$426,361. 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, 2014 and 2013

NOTE 3 – INVENTORIES

Inventories at June 30, 2014 and 2013, consist of the following:

	2014		
	Cost	Market	Lower of Cost or Market
Premium Merchandise	\$ 6,191	\$ 13,275	\$ 6,191
Retreat Center Bookstore	12,210	42,275	12,210
Education Products Inventory	7,555	65,718	7,555
	\$ 25,956	\$ 121,268	\$ 25,956
	2013		
	Cost	Market	Lower of Cost or Market
Premium Merchandise	\$ 21,345	\$ 11,656	\$ 11,656
Retreat Center Bookstore	21,219	51,464	21,219
	\$ 42,564	\$ 63,120	\$ 32,875

NOTE 4 – FIXED ASSETS

Fixed assets at June 30, 2014 consist of the following:

	Cost	Accumulated Depreciation	Book Value
Land	\$ 4,800,000	0	\$ 4,800,000
Buildings and Improvements	5,050,419	2,799,177	2,251,242
Furniture and Equipment	599,987	578,306	21,681
Construction in Progress	656,927	1,325	655,602
Trucks and Automobiles	45,548	44,308	1,240
Artwork	3,800	0	3,800
	\$ 11,156,681	\$ 3,423,116	\$ 7,733,565

INSTITUTE OF NOETIC SCIENCES
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014 and 2013

NOTE 5- NOTES PAYABLE

As of June 30, 2014, the Organization has various notes payable of \$1,640,000. All of the notes are due June 30, 2015 and have an interest rate of 5%.

NOTE 6 – RELATED PARTY TRANSACTIONS

The Organization has two lines of credit with Betsy Gordon, a board member, as assignee of George Zimmer, also a board member. The Assignment was completed July 17, 2013.

One line is a Revolving Line of Credit available up to \$500,000. The other is an Infrastructure Line of Credit, also available up to \$500,000 and with an available draw period ended July 31, 2011. Both loans are carried at an interest rate of 5%, payable June 30th of each year and having commenced June 30, 2010. Effective July 1, 2014 each of these loans began to incur 3 points in addition to the 5% interest rate.

Principal, points, and interest are payable in full June 30, 2015 and both loans are secured by the land and buildings of the Organization.

Both the Revolving Line of Credit and the Infrastructure Line of Credit principal balances were \$500,000 each at June 30, 2014 and 2013 and the Organization paid Betsy Gordon interest of \$50,000 for the year ended June 30, 2014. There was no unpaid accrued interest for the years ended June 30, 2014 and 2013.

Monica Pal, a board member, loaned the Organization \$50,000 on November 19, 2012 for the purpose of real property improvements. The loan carries an interest rate of 5% with interest and principal payable in full on June 30, 2015. The Organization paid Monica Pal interest of \$2,500 for the year ended June 30, 2014 and there was no unpaid accrued interest for the years ended June 30, 2014 and 2013. This loan is secured by the land and buildings of the Organization.

Edgar Mitchell, a board member, loaned the Organization \$100,000 on November 21, 2012 for the purpose of real property improvements. The loan carried an interest rate of 5% with interest and principal payable in full on June 30, 2014. Edgar Mitchell converted this note, and accrued interest of \$3,274, to a gift to the Organization on July 18, 2013. This loan was secured by the land and buildings of the Organization.

Harriet Crosby, a board member, loaned the Organization \$50,000 on February 19, 2013 for the purpose of real property improvements. The loan carries an interest rate of 5% with interest and principal payable in full on June 30, 2015. The Organization paid Harriet Crosby interest of \$2,500 for the year ended June 30, 2014 and there was no unpaid accrued interest for the years ended June 30, 2014 and 2013. This loan is secured by the land and buildings of the Organization.

The Organization paid \$12,520 in legal fees to Calhoun Pilgrim LLP. Brian Calhoun was the primary service provider and is the son of Mark Calhoun, a board member.

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.

INSTITUTE OF NOETIC SCIENCES
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2014 and 2013

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, 2014 net assets released from restrictions was \$924,973.

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2014 and 2013 consist of contributions received, which are restricted for the following purposes:

	2014	2013
Research	\$ 248,223	\$ 458,883
Donor Advised Funds	45,773	59,037
	\$ 293,996	\$ 517,920

NOTE 10 – PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets as of June 30, 2014 and 2013 consist of cash and an interfund receivable in the amount of \$227,774 and \$217,774 respectively.

NOTE 11 – LEASE INCOME

The Organization leases office space to other organizations that closely align with their charitable goals. Lease income was \$92,165 and \$ 99,492 for years ended June 30, 2014 and 2013 respectively. All leases are month to month at June 30, 2014. The leased fixed assets as of June 30, 2014 consist of the following:

	Cost	Accumulated Depreciation	Book Value
Buildings and Improvements	\$ 707,059	\$ 391,885	\$ 315,174

INSTITUTE OF NOETIC SCIENCES
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014 and 2013

NOTE 12 – LEASE EXPENSE

The Organization paid \$213,177 and \$189,022 for operating leases for the year ended June 30, 2014 and 2013 respectively. The Organization has the following minimum lease payments for the remaining two fiscal years for office space:

<u>Year Ended</u>	<u>Amount</u>
June 30, 2015	\$ 119,940
June 30, 2016	\$ 119,940

NOTE 13 – 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, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
Sales	\$ 122,889	\$ 123,874
Cost of Goods Sold	<u>38,662</u>	<u>35,468</u>
Net Sales	<u>\$ 84,227</u>	<u>\$ 88,406</u>

NOTE 14 – 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 15 – RECLASSIFICATION OF PRIOR YEAR PRESENTATION

Certain prior year amounts have been reclassified for consistency with the current period presentation. This reclassification had no effect on the reported change in net assets. In 2014, the Organization concluded that it was appropriate to classify membership support as contribution support due to the nature and valuation of benefits derived by the members. For the year ended June 30, 2013, \$625,020 of contributions were previously classified as memberships.

NOTE 16 – EVALUATION OF SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through April 28, 2015 the date which the financial statements were available to be issued.