

INSTITUTE OF NOETIC SCIENCES
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	3
STATEMENTS OF ACTIVITIES	4
STATEMENT OF FUNCTIONAL EXPENSES	5
STATEMENTS OF CASH FLOWS	6
NOTES TO FINANCIAL STATEMENTS	7-13



Certified Public Accountants Inc.

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, 2018, 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, 2018 and 2017, 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.

Report on Summarized Comparative Information

We have previously audited the Organization’s 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 4, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

HAC Certified Public Accountants Inc.



Thomas J. Holden
Certified Public Accountant

San Rafael, California
January 18, 2019

INSTITUTE OF NOETIC SCIENCES
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

	2018			2017
	<u>ASSETS</u>			
	Unrestricted	Temporarily Restricted	Total	
CURRENT ASSETS				
Cash	\$ 156,906	\$ 624,706	\$ 781,612	\$ 647,612
Accounts Receivable	88,652		88,652	143,343
Interfund Receivable (Payable)	31,388	(31,388)	0	0
Inventory	8,519		8,519	22,374
Prepaid Expenses and Deposits	55,116		55,116	133,023
Total Current Assets	340,581	593,318	933,899	946,352
FIXED ASSETS				
Fixed Assets	11,373,940		11,373,940	11,253,634
Less: Accumulated Depreciation	(4,107,643)		(4,107,643)	(3,845,369)
Net Fixed Assets	7,266,297		7,266,297	7,408,265
TOTAL ASSETS	\$ 7,606,878	\$ 593,318	\$ 8,200,196	\$ 8,354,617
	<u>LIABILITIES & NET ASSETS</u>			
CURRENT LIABILITIES				
Accounts Payable	\$ 303,373		\$ 303,373	\$ 222,862
Accrued Vacations	104,383		104,383	96,755
Notes Payable	350,000		350,000	1,680,000
Legal Trust Fund	92,525		92,525	0
Deferred Revenue	470,701		470,701	623,142
Total Current Liabilities	1,320,982		1,320,982	2,622,759
LONG TERM LIABILITIES				
Note Payable	1,230,000		1,230,000	0
Total Long Term Liabilities	1,230,000		1,230,000	0
TOTAL LIABILITIES	\$ 2,550,982		\$ 2,550,982	\$ 2,622,759
	<u>NET ASSETS</u>			
Unrestricted Net Assets	\$ 5,055,896		\$ 5,055,896	\$ 4,981,464
Temporarily Restricted		\$ 593,318	593,318	750,394
TOTAL NET ASSETS	\$ 5,055,896	\$ 593,318	\$ 5,649,214	\$ 5,731,858
TOTAL LIABILITIES AND NET ASSETS	\$ 7,606,878	\$ 593,318	\$ 8,200,196	\$ 8,354,617

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

INSTITUTE OF NOETIC SCIENCES
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2018 AND 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2018</u>	<u>Total 2017</u>
REVENUES, GAINS, AND OTHER SUPPORT				
SUPPORT				
Contributions	\$ 1,606,950	\$ 1,195,645	\$ 2,802,595	\$ 2,005,096
REVENUES				
Facility Rentals	2,595,452		2,595,452	2,446,129
Conferences and Events	(4,424)		(4,424)	0
Interest and Dividends	1,012		1,012	1,405
Interfund Interest	(10,000)	10,000	0	0
Sales of Books, CDs and DVDs, Net	20,731		20,731	60,557
Royalties, Fees, & Other	71,505		71,505	123,620
Total Revenues	<u>2,674,276</u>	<u>10,000</u>	<u>2,684,276</u>	<u>2,631,711</u>
TOTAL SUPPORT AND REVENUES	4,281,226	1,205,645	5,486,871	4,636,807
EXPENSES				
PROGRAM SERVICES				
Research	1,480,177		1,480,177	1,002,246
Education	2,943,860		2,943,860	2,900,525
Total Program Services	<u>4,424,037</u>		<u>4,424,037</u>	<u>3,902,771</u>
SUPPORTING SERVICES				
Management and General	652,125		652,125	593,063
Fundraising	493,353		493,353	529,060
Total Supporting Services	<u>1,145,478</u>		<u>1,145,478</u>	<u>1,122,123</u>
TOTAL EXPENSES	<u>5,569,515</u>		<u>5,569,515</u>	<u>5,024,894</u>
Contributions Released from Restrictions	<u>1,362,721</u>	<u>(1,362,721)</u>	<u>0</u>	<u>0</u>
CHANGE IN NET ASSETS	74,432	(157,076)	(82,644)	(388,087)
NET ASSETS AT BEGINNING OF YEAR	<u>4,981,464</u>	<u>750,394</u>	<u>5,731,858</u>	<u>6,119,945</u>
NET ASSETS AT END OF YEAR	<u>\$ 5,055,896</u>	<u>\$ 593,318</u>	<u>\$ 5,649,214</u>	<u>\$ 5,731,858</u>

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

INSTITUTE OF NOETIC SCIENCES
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018

	PROGRAM SERVICES			SUPPORTING SERVICES			
	Research	Education	Total Program Services	Mgmt & General	Fundraising	Total Supporting Services	Total Expenditures
Salaries	\$ 358,921	\$ 1,274,886	\$ 1,633,807	\$ 277,111	\$ 259,100	\$ 536,211	\$ 2,170,018
Professional Fees	841,540	12,768	854,308	98,130	350	98,480	952,788
Retreats and Events	11,730	526,997	538,727	25,719	56,327	82,046	620,773
Occupancy	39,689	478,534	518,223	38,555	10,206	48,761	566,984
Depreciation	18,359	221,358	239,717	17,835	4,721	22,556	262,273
Employee Benefits	39,089	138,843	177,932	30,179	28,218	58,397	236,329
Data and Telecomm	76,356	76,152	152,508	18,961	19,260	38,221	190,729
Payroll Taxes	26,202	93,070	119,272	20,230	18,915	39,145	158,417
Office	31,921	58,288	90,209	25,895	5,619	31,514	121,723
Interest	0	0	0	86,916	0	86,916	86,916
Printing and Publications	2,637	16,624	19,261	1,560	49,825	51,385	70,646
Merchant Service Fees	0	27,604	27,604	117	17,668	17,785	45,389
Travel	29,778	278	30,056	7,429	3,813	11,242	41,298
Outreach	1,635	10,180	11,815	3,240	16,142	19,382	31,197
Postage and Mailing	2,320	2,352	4,672	248	3,189	3,437	8,109
Royalties	0	5,926	5,926	0	0	0	5,926
Total Functional Expenses	\$ 1,480,177	\$ 2,943,860	\$ 4,424,037	\$ 652,125	\$ 493,353	\$ 1,145,478	\$ 5,569,515
			79%	12%	9%		100%

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

INSTITUTE OF NOETIC SCIENCES
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (82,644)	\$ (388,087)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided in Operating Activities:		
Depreciation	262,273	269,438
Changes In Assets & Liabilities		
(Increase) Decrease In Accounts Receivable	54,691	13,546
(Increase) Decrease In Inventory	13,856	5,252
(Increase) Decrease In Prepaid Expense and Deposits	77,907	(59,093)
Increase (Decrease) In Accounts Payable	80,511	106,283
Increase (Decrease) In Accrued Interest on Notes	0	(28,408)
Increase (Decrease) In Accrued Vacation Payable	7,628	5,014
Increase (Decrease) In Deferred Revenue	(152,441)	242,207
Increase (Decrease) In Legal Trust Fund	92,525	0
Net Cash Provided in Operating Activities	354,306	166,152
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of Promissory Notes	0	0
Principal Payments on Lines of Credit	(100,000)	(400,000)
Net Cash (Used) in Financing Activities	(100,000)	(400,000)
CASH FLOWS FROM INVESTING ACTIVITIES		
Disposal of Equipment	0	0
Purchase of Fixed Assets	(120,306)	(155,734)
Net Cash (Used) in Investing Activities	(120,306)	(155,734)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	134,000	(389,582)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	647,612	1,037,194
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 781,612	\$ 647,612

Supplemental Disclosures of Cash Flow Information:

	Interest paid	\$ 86,916	\$ 96,147
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INSTITUTE OF NOETIC SCIENCES
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 and 2017

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, 2018 and 2017, was \$262,273 and \$269,438 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, 2018 and 2017

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.

Funds are considered permanently restricted if the donor imposes a restriction that the funds be maintained permanently, though the Organization may use the income derived from such assets or a fixed percentage of the fair market value 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.

Sales Tax

Gross receipts are shown net of sales tax collected.

INSTITUTE OF NOETIC SCIENCES
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 and 2017

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Vacation/Sick Pay

Vacation and sick pay benefits are based on each employee's length of employment and only vacation may be carried over to the next year. The accrued balances for the years ended June 30, 2018 and 2017, were \$104,383 and \$96,755 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, 2015, 2016 and 2017, 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, 2018 the accounts exceeded \$250,000 by \$530,212. 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, 2018 and 2017

NOTE 3 – INVENTORIES

Inventories at June 30, 2018 and 2017, consist of the following:

	2018		
	Cost	Market	Lower of Cost or Market
Education Products Inventory	\$ 8,519	\$ 41,859	\$ 8,519
	\$ 8,519	\$ 41,859	\$ 8,519
	2017		
	Cost	Market	Lower of Cost or Market
Retreat Center Bookstore	\$ 13,892	\$ 49,056	\$ 13,892
Education Products Inventory	8,482	44,542	8,482
	\$ 22,374	\$ 93,598	\$ 22,374

NOTE 4 – FIXED ASSETS

Fixed assets at June 30, 2018 consist of the following:

	Cost	Accumulated Depreciation	Book Value
Land	\$ 4,800,000	\$ 0	\$ 4,800,000
Buildings and Improvements	5,355,884	3,541,905	1,813,979
Furniture and Equipment	656,173	520,190	135,983
Construction in Progress	512,535	0	512,535
Trucks and Automobiles	45,548	45,548	0
Artwork	3,800	0	3,800
	\$ 11,373,940	\$ 4,107,643	\$ 7,266,297

INSTITUTE OF NOETIC SCIENCES
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 and 2017

NOTE 5- NOTES PAYABLE

As of June 30, 2018, the Organization has various notes payable of \$1,580,000, of which \$350,000 is due June 30, 2019 and \$1,230,000 is due June 30, 2020. Each of these notes has an interest rate of 5%.

NOTE 6 – RELATED PARTY TRANSACTIONS

The Organization had 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 was a Revolving Line of Credit available up to \$500,000. The other was an Infrastructure Line of Credit, also available up to \$500,000 and with an available draw period ended July 31, 2011. Both loans were 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.

Both loans, secured by the land and buildings of the Organization, were paid off in August 2016 upon receipt of a new \$1,000,000 loan from Calvin Lehew, a board member. The new loan from Calvin Lehew carries an interest rate of 5% with interest payable on June 30 of each year and principal payable in full on June 30, 2020. The Organization paid Calvin Lehew interest of \$50,000 and there was no unpaid accrued interest for the years ended June 30, 2018 and 2017. This loan is secured by the land and buildings of the Organization.

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, 2019. The Organization paid Monica Pal interest of \$2,500 for the year ended June 30, 2018 and there was no unpaid accrued interest for the years ended June 30, 2018 and 2017. This loan is secured by the land and buildings of the Organization. Monica Pal is no longer a board member as of June 30, 2018.

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, 2019. The Organization paid Harriet Crosby interest of \$2,500 for the year ended June 30, 2018 and there was no unpaid accrued interest for the years ended June 30, 2018 and 2017. This loan is secured by the land and buildings of the Organization.

Claudia Welss, a board member, loaned the Organization \$340,000 on January 15, 2016 for the purpose of operating funds and retirement of other debt coming due September 2016. The loan carries an interest rate of 5% with interest and principal payable in full on June 30, 2018. On June 2, 2017 Claudia Welss forgave \$10,000 of this loan. The Organization paid Claudia Welss interest of \$16,500 for the year ended June 30, 2018 and \$17,000 for the year ended June 30, 2017. On June 28, 2018 the Organization paid the loan in full. On June 28, 2018 Claudia Welss loaned the Organization \$230,000 for the purpose of operating funds. The loan carries an interest of 5% with interest and principal payable in full on June 30, 2020. There was no unpaid interest accrued on this loan for the year ended June 30, 2018. This loan is secured by the land and buildings of the Organization.

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, 2018 and 2017

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, 2018 net assets released from restrictions was \$1,362,721.

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2018 and 2017 consist of contributions received, which are restricted for the following purposes:

	2018	2017
Research	\$ 310,573	\$ 444,756
Winston Franklin Endowment Fund	267,774	257,774
Donor Advised Funds	14,971	47,864
	\$ 593,318	\$ 750,394

NOTE 10 – WINSTON FRANKLIN ENDOWMENT FUND

As of June 30, 2018 and 2017 the Winston Franklin Endowment Fund consisted of cash and an interfund receivable in the amount of \$267,774 and \$257,774 respectively.

NOTE 11 – LEASE INCOME

The Organization leases office space to other organizations that closely align with their charitable goals. Lease income was \$18,328 and \$74,796 for years ended June 30, 2018 and 2017 respectively. All leases have been terminated at June 30, 2018.

NOTE 12 – LEASE EXPENSE

The Organization paid \$133,757 and \$218,299 for operating leases for the year ended June 30, 2018 and 2017 respectively. The leases are on a month to month basis.

INSTITUTE OF NOETIC SCIENCES
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 and 2017

NOTE 13 – COST OF GOODS SOLD

Sales of books, CDs & DVDs are shown net of cost of goods sold on the statement of activities. The Organization sells digital copies of material through their online store, which has no inventory cost. Sales and cost of goods sold at June 30, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Sales	\$ 36,915	\$ 96,979
Cost of Goods Sold	<u>16,184</u>	<u>36,422</u>
Net Sales	<u><u>\$ 20,731</u></u>	<u><u>\$ 60,557</u></u>

NOTE 14 – CONTINGENT LIABILITY

Pursuant to the terms of a contribution agreement, the Organization was 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. This contingency no longer exists as of June 30, 2018.

NOTE 15– EVALUATION OF SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through January 18, 2019 the date which the financial statements were available to be issued.