

DAVID LYNCH FOUNDATION
For Consciousness Based
Education and World Peace

Financial Statements

June 30, 2014 and 2013

DAVID LYNCH FOUNDATION
For Consciousness Based Education and World Peace

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Independent Auditors' Report

Board of Directors
David Lynch Foundation for Consciousness Based Education and World Peace
Fairfield, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of David Lynch Foundation for Consciousness Based Education and World Peace (dba. David Lynch Foundation) as of and for the years ended June 30, 2014 and 2013, which comprise the financial statements as listed in the table of contents.

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.

Auditors' 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. 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 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 auditors consider 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 David Lynch Foundation 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.

TD&T CPAs and Advisors, P.C.

Pella, Iowa
November 21, 2014

DAVID LYNCH FOUNDATION

Statements of Financial Position June 30, 2014 and June 30, 2013

	<u>Assets</u>	
	2014	2013
Current assets:		
Cash and cash equivalents	\$ 626,021	3,463,150
Contributions receivable	3,122,269	58,573
Other receivables	11,232	803
Prepaid expenses	43,075	22,990
Inventory	11,289	-
Security deposits	138,526	102,026
Total current assets	3,952,412	3,647,542
Property and equipment:		
Furniture and fixtures	167,101	41,936
Equipment	129,426	98,557
	296,527	140,493
Less accumulated depreciation	105,289	77,000
	191,238	63,493
Total assets	\$ 4,143,650	3,711,035
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 23,789	241,833
Payroll liabilities	57,325	36,921
Grants payable	250,000	431,002
Agency liability - Book tour	-	111,343
Accrued vacation	53,709	29,033
Total current liabilities	384,823	850,132
Total liabilities	384,823	850,132
Net assets:		
Unrestricted	2,299,959	2,195,618
Temporarily restricted	1,458,868	665,285
Total net assets	3,758,827	2,860,903
	\$ 4,143,650	3,711,035

See accompanying notes to financial statements.

DAVID LYNCH FOUNDATION
Statements of Activities
For the Years Ended June 30, 2014 and 2013

	2014			2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue:						
Contributions	\$ 5,755,823	1,261,736	7,017,559	5,579,479	655,284	6,234,763
Special events (net of \$1,201,106 and \$769,546 direct benefit to donors for 2014 and 2013, respectively)	371,136	-	371,136	869,813	-	869,813
Grant revenue	880,234	-	880,234	16,500	-	16,500
Program revenue	126,326	-	126,326	4,879	-	4,879
Other revenues	177,903	-	177,903	62,637	-	62,637
Miscellaneous revenue	17,415	-	17,415	-	-	-
Net assets released from restrictions (Note 3)	468,153	(468,153)	-	578,243	(578,243)	-
Total support and revenue	<u>7,796,990</u>	<u>793,583</u>	<u>8,590,573</u>	<u>7,111,551</u>	<u>77,041</u>	<u>7,188,592</u>
Expenses:						
Program	6,076,794	-	6,076,794	5,518,034	-	5,518,034
Management and general	466,101	-	466,101	411,435	-	411,435
Fundraising	1,149,754	-	1,149,754	864,985	-	864,985
	<u>7,692,649</u>	<u>-</u>	<u>7,692,649</u>	<u>6,794,454</u>	<u>-</u>	<u>6,794,454</u>
Change in net assets	104,341	793,583	897,924	317,097	77,041	394,138
Net assets, beginning of year	2,195,618	665,285	2,860,903	1,878,521	588,244	2,466,765
Net assets, end of year	<u>\$ 2,299,959</u>	<u>1,458,868</u>	<u>3,758,827</u>	<u>2,195,618</u>	<u>665,285</u>	<u>2,860,903</u>

See accompanying notes to financial statements.

DAVID LYNCH FOUNDATION
Statements of Functional Expenses
For the Year Ended June 30, 2014

	Education	OWW	Women	DLFtv	DLF Live	International	Other Programs	Total Program	Management and General	Fundraising	Total
Personnel	\$ 326,030	195,614	178,975	337,401	204,997	47,204	297,141	1,587,362	279,078	595,540	2,461,980
Grants	2,016,925	191,025	62,162	-	-	382,165	734,647	3,386,924	-	-	3,386,924
Program Expenses	66,921	46,364	9,105	8,623	122	6,105	37,177	174,417	-	-	174,417
Program Research	-	-	-	-	-	-	30,000	30,000	-	-	30,000
Retreat Expenses	-	-	-	-	-	-	28,849	28,849	-	-	28,849
Production & Media	310	-	10,656	18,963	35,525	-	32,874	98,328	-	264,366	362,694
Printing & Advertising	-	2,349	4,602	483	5,118	-	12,721	25,273	4,270	33,577	63,120
Special Events & Annual Gala	-	-	20,525	-	598,021	-	3,038	621,584	-	292,512	914,096
Cultivation Expense	-	3,131	1,047	-	6,845	-	1,048	12,071	3,990	32,355	48,416
Consultants/Website Design	108	30,703	30,300	2,871	73,753	-	22,347	160,082	7,500	62,854	230,436
Occupancy	38,097	23,011	24,290	48,466	32,727	5,114	78,945	250,650	25,568	72,098	348,316
Telephone & Internet	4,044	2,565	2,533	5,839	4,658	507	5,714	25,860	2,595	12,160	40,615
Postage, Shipping	997	723	849	3,813	3,463	193	1,323	11,361	453	13,425	25,239
Office Supplies, Equipment Rental	7,276	4,618	4,733	9,751	10,198	808	8,795	46,179	4,850	24,531	75,560
IT (software, hardware, web)	1,344	2,238	1,038	7,609	4,159	290	9,572	26,250	15,760	24,519	66,529
Audit	-	-	-	-	-	-	-	-	18,537	-	18,537
Accounting	-	-	-	-	-	-	-	-	38,976	-	38,976
Membership & Subscriptions	112	-	531	1,166	2,362	-	10	4,181	8,127	24,708	37,016
Professional Development	1,000	-	365	180	560	-	758	2,863	792	3,126	6,781
Travel & Meetings	10,909	21,403	11,956	24,821	8,107	3,518	56,912	137,626	2,956	140,483	281,065
Insurance	-	-	-	4,188	-	-	-	4,188	40,000	-	44,188
Legal	-	-	-	-	-	-	-	-	4,018	-	4,018
Bank & Credit Card Fees	1,174	142	1,289	-	44,612	960	1,391	49,568	4,824	21,046	75,438
Donated Services	-	-	-	-	9,000	-	90,000	99,000	2,256	1,000	102,256
Depreciation	2,327	1,465	1,465	11,293	2,068	259	4,586	23,463	1,551	3,275	28,289
Special Events Direct Benefit to Donors	2,477,574	525,351	366,421	485,467	1,046,295	447,123	1,457,848	6,806,079	466,101	1,621,575	8,893,755
	\$ 2,477,574	525,351	366,421	485,467	317,010	447,123	1,457,848	\$ 6,076,794	466,101	(471,821)	(1,201,106)
										1,149,754	7,692,649

See accompanying notes to financial statements.

DAVID LYNCH FOUNDATION
Statements of Functional Expenses
For the Year Ended June 30, 2013

	Education	OWW	Women	DLFiv	DLF Live	International	Other Programs	Total Program	Management and General	Fundraising	Total
Personnel	\$ 213,150	169,660	124,624	303,910	-	34,379	220,025	1,065,748	249,248	403,953	1,718,949
Grants	2,320,083	253,567	92,893	-	-	247,695	565,410	3,479,648	-	-	3,479,648
Program Expenses	67,098	55,972	7,480	11,991	-	9,388	117,562	269,491	-	-	269,491
Program Research	-	-	-	-	-	-	30,000	30,000	-	-	30,000
Production & Media	18,014	7,500	3,977	34,172	-	1,500	7,050	72,213	-	444,437	516,650
Printing & Advertising	1,313	6,182	2,114	235	-	-	7,758	17,602	-	13,403	31,005
Special Events & Annual Gala	21,874	50,500	1,631	383	-	-	6,789	81,177	-	490,317	571,494
Consultants/Website Design	25,739	57,887	115	4,114	-	28	61,826	149,709	39,520	60,274	249,503
Occupancy	39,098	25,533	13,771	26,650	-	3,368	38,853	147,273	25,816	49,673	222,762
Telephone & Internet	5,443	3,555	1,917	3,820	-	469	5,409	20,613	3,593	6,915	31,121
Postage, Shipping	570	968	194	2,352	-	249	1,336	5,669	4,508	6,777	16,954
Office Supplies, Equipment Rental	12,763	8,335	4,495	8,957	-	1,099	12,683	48,332	8,429	16,215	72,976
IT (software, hardware, web)	20	1,177	-	5,428	-	-	1,481	8,106	22,126	20,627	50,859
Audit	-	-	-	-	-	-	-	-	9,233	-	9,233
Accounting	-	-	-	-	-	-	-	-	5,110	-	5,110
Membership & Subscriptions	-	-	-	6	-	-	1,202	1,208	3,256	4,546	9,010
Professional Development	2,052	6,077	350	63	-	-	-	8,542	363	4,002	12,907
Travel & Meetings	15,027	21,035	3,145	14,496	-	6,954	46,393	107,050	4,962	91,699	203,711
Insurance	-	-	-	3,966	-	-	1,687	5,653	-	4,799	10,452
Legal	-	-	-	-	-	-	-	-	3,101	-	3,101
Bank & Credit Card Fees	-	-	-	-	-	-	-	-	5,447	16,894	22,341
Depreciation	-	-	-	-	-	-	-	-	26,723	-	26,723
Special Events Direct Benefit to Donors	2,742,244	667,948	256,706	420,543	-	305,129	1,125,464	5,518,034	411,435	1,634,531	7,564,000
	\$ 2,742,244	667,948	256,706	420,543	-	305,129	1,125,464	5,518,034	411,435	(769,546)	(769,546)
										864,985	6,794,454

See accompanying notes to financial statements.

DAVID LYNCH FOUNDATION

Statements of Cash Flows For the Years Ended June 30, 2014 and 2013

	2014	2013
Operating activities:		
Change in net assets	\$ 897,924	394,138
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	28,289	26,723
(Increase) decrease in contribution receivable and other receivables	(3,074,125)	(57,531)
(Increase) decrease in prepaid expenses	(20,085)	(22,314)
(Increase) decrease in inventories	(11,289)	-
(Increase) decrease in security deposits	(36,500)	(62,233)
Increase (decrease) in accounts payable	(218,044)	167
Increase (decrease) in agency liability	(111,343)	111,343
Increase (decrease) in grants payable	(181,002)	431,002
Increase (decrease) in accrued vacation and payroll liabilities	45,080	27,900
Net cash provided (used) by operating activities	(2,681,095)	849,195
Investing activities:		
Purchase of property and equipment	(156,034)	(49,579)
Net cash provided (used) by investing activities	(156,034)	(49,579)
Net increase (decrease) in cash and cash equivalents	(2,837,129)	799,616
Cash and cash equivalents, beginning of year	3,463,150	2,663,534
Cash and cash equivalents, end of year	\$ 626,021	3,463,150
Supplemental disclosure of non-cash operating activity:		
Donation of services	\$ 202,256	-

See accompanying notes to financial statements.

DAVID LYNCH FOUNDATION

Notes to Financial Statements June 30, 2014 and 2013

Note 1 – Organization

The David Lynch Foundation, a 501(c)(3) organization, was established in 2005 to fund the implementation of Transcendental Meditation, a scientifically proven stress-reducing modality, to at-risk populations such as underserved inner-city students; veterans with PTSD and their families; women and their children who are survivors of domestic abuse and sexual violence. In addition to the Foundation's three core programs, the David Lynch Foundation provides support for American Indians suffering from diabetes, cardiovascular disease, and high suicide rates; homeless men participating in reentry programs striving to overcome addictions; and incarcerated juveniles and adults.

The Foundation also funds university and medical school research to assess the effects of the program on academic performance, ADHD and other learning disorders, anxiety, depression, blood pressure, substance abuse, cardiovascular disease, post-traumatic stress disorder, autism and diabetes.

The effectiveness of Transcendental Meditation programs has been researched at leading medical schools including Harvard Medical School, Stanford Medical School, and Yale Medical School. These programs have received the endorsement of and support from private foundations and government agencies, including the National Institutes of Health, General Motors Foundation, the Chrysler Foundation, the Kellogg Foundation, many school districts, and state departments of corrections.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

Net assets and revenues, expenses, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

- *Unrestricted* – net assets not subject to donor-imposed restrictions.
- *Temporarily restricted* – net assets subject to donor imposed restrictions to specific purposes or the passage of time. The release from restrictions results from the satisfaction of the restricted purposes specified by the donor.
- *Permanently restricted* – net assets subject to donor-imposed restrictions that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or specific purposes. There were no permanently restricted net assets at June 30, 2014 and 2013.

Contributions with donor-imposed restrictions that are met in the same year the gift is received are reported as unrestricted revenue. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

(continued)

DAVID LYNCH FOUNDATION

Notes to Financial Statements (Continued) June 30, 2014 and 2013

Note 2 – Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until they become unconditional; that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions with donor-imposed restrictions that are met within the same reporting period are reported as unrestricted support.

Contribution receivables are all expected to be received in the following year and are classified as current assets.

Contributions of land, buildings, and equipment without donor restrictions concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire land, buildings, and equipment are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

Grants to other organizations are recognized as an expense in the period where the promise to give is made. If the grant has not been paid to the recipient organization prior to yearend, the Foundation reports the amounts of grants payable.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Inventory

Inventory is valued at cost using the first-in, first-out method.

Property and Equipment

All acquisitions of property and equipment in excess of \$1,000 and all expenditures for repairs, maintenance, renewals, and betterments in excess of \$1,000 that materially prolong the useful lives of assets are capitalized. Property and equipment are recorded at cost less an allowance for depreciation. Depreciation is computed on a straight-line basis over the estimated useful lives of the respective assets, which was three to five years for equipment and eight years for furniture and fixtures.

(continued)

DAVID LYNCH FOUNDATION

Notes to Financial Statements (Continued) June 30, 2014 and 2013

Note 2 – Summary of Significant Accounting Policies (Continued)

Income Taxes

The Foundation is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes. The Foundation is not classified as a private foundation. The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Foundation believes it is no longer subject to income tax examinations for years ended prior to June 30, 2010.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Functional Allocation of Expenses

The costs of providing various programs, grants, and other activities have been summarized on a functional basis in the accompanying statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Date of Management Review

Management has evaluated subsequent events through November 21, 2014, the date which the financial statements were available to be issued. No events have occurred subsequent to the statement of financial position date through our evaluation date that would require adjustment to or disclosure in the financial statements.

Note 3 – Restrictions on Net Assets

Temporarily restricted net assets are/were available for the following purposes at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
African (Congo) PTSD Project	\$ 2,696	\$ -
Autism School	98,920	95,500
California Endowment Trauma Program	118,111	-
Care Givers Project	2,000	-
Chicago Programs	8,828	-
Christ Our Savior School - IL	17,663	17,663
Christian Fenger HS	7,500	-

(continued)

DAVID LYNCH FOUNDATION

Notes to Financial Statements (Continued) June 30, 2014 and 2013

Note 3 – Restrictions on Net Assets (Continued)

City Year	15,744	-
Development	748,377	-
DLFtv	-	459,277
Family Justice Center (Women's)	49,633	54,218
Fredrick Douglass Academy	1,000	1,000
HOPE Program	5,690	-
International Programs	-	3,722
Ireland	150	150
Los Angeles Programs	132,937	-
Loyola University of Chicago - Stritch School of Medicine	26,915	-
Mozambique	400	400
Native American	1,217	-
NY Schools	3,000	3,000
Paletine Peace Project - Hope School	7,610	-
Philippines	7,000	7,000
Pottawattomi County Veterans Office	3,458	-
San Francisco Aids Foundation	14,790	15,360
Sanctuary for Families	15,715	-
Santa Monica Police	10,700	-
Smarak India Film Project	6,295	6,295
Solomon Islands	1,700	1,700
St. Luke's	8,607	-
Tanzania	22	-
Thailand	14,297	-
TTC - Outreach	126,432	-
Washington DC Navy Yard	1,461	-
	<u>\$ 1,458,868</u>	<u>\$ 665,285</u>

Net assets released from restrictions during the year ended June 30, 2014 and 2013 are as follows:

	2014	2013
Democratic Republic of Congo	\$ -	\$ 2,773
Caregiver Pilot Project	-	12,000
DLF Administration	-	95,000
DLFtv	459,276	220,295
Family Justice Center	4,585	-
International	3,722	-
Ireland	-	200

(continued)

DAVID LYNCH FOUNDATION

Notes to Financial Statements (Continued) June 30, 2014 and 2013

Note 3 – Restrictions on Net Assets (Continued)

Nepal Vedic School	-	11,765
Palestine Peace Project	-	1,878
Pine Manor	-	50,000
Rosenthal Book Tour	-	16,930
San Francisco Aids Foundation	570	-
Veterans PTSD - OWW	-	137,867
Women's Programs	-	29,535
	\$ 468,153	\$ 578,243

Note 4 – Operating Lease Commitments

The Foundation has noncancelable operating leases, primarily for office space, that expire at various dates through January 31, 2018. Those leases generally contain renewal options and some require the Foundation to pay all executor costs such as taxes, maintenance, and insurance.

Leases for office space in New York, NY have variable monthly commitments ranging from \$12,950 to \$18,230 for June 30, 2014 and \$16,683 for June 30, 2013. The Foundation pays \$4,100 per month for an office space lease in Los Angeles, which terminates March 25, 2016. Office space in Fairfield, IA will be leased for \$0.60 per square foot starting July 1, 2014 and ending on June 30, 2016. The future minimum lease payments under these operating leases that have remaining terms in excess of one year as of June 30, 2014 are:

2015	\$ 433,355
2016	433,779
2017	133,240
2018	<u>2,862</u>
	\$ <u>1,003,236</u>

The Foundation has one copier lease in the amount of \$447 per month that expires January 31, 2018. The future minimum lease payments for the years ended June 30 under this operating lease are:

2015	\$ 5,364
2016	5,364
2017	5,364
2018	<u>2,862</u>
	\$ <u>18,954</u>

The total rent expense was \$307,041 and \$189,709 for the years ended June 30, 2014 and 2013, respectively.

DAVID LYNCH FOUNDATION

Notes to Financial Statements (Continued) June 30, 2014 and 2013

Note 5 – Concentrations

The credit risk for contributions receivable at June 30, 2014 was concentrated, with 98 percent owed from one donor. The Foundation believes the risk is minimal due to the payment history of the donor. The contribution receivable was subsequently received during fiscal year 2015.

The Foundation expects to continue receiving funding from some of these sources in the future due to the donors' giving histories and strong relationships with the Foundation. The Foundation has also taken significant steps to diversify and broaden its funding sources by building a stronger, more robust development team and cultivating new and deeper relationships with other foundations and individuals.

Cash in excess of daily requirements is invested in interest bearing accounts of qualified financial institutions in amounts that may exceed federal insured limits. The Foundation believes the credit risk related to these deposits is minimal; however, the amount over the limit at June 30, 2014 and 2013 was \$273,801 and \$3,099,888, respectively.

The Foundation received approximately 52 percent of its total support and revenue from one donor during the year ended June 30, 2014 and approximately 60 percent of its total support and revenue from two donors during the year ended June 30, 2013. The two donors contributed 48 percent and 12 percent, respectively, of the total support and revenue during 2013.

Note 6 - Donated Services

The Foundation received services provided by various individuals and organizations during the year. The value of services provided is to be reported as support and expenses in the financial statements if the services meet the following criteria:

- A. The donated services would create or enhance non-financial assets; or
- B. The donated services would require specialized skills, would be performed by people with those skills, and would otherwise be purchased by the Foundation.

Using these criteria, the value of services provided to the Foundation has been reported in these financial statements, and the services have been valued using the costs applicable for each service.

Donated services for the years ended June 30, 2014 and 2013 were \$202,256 and \$0, respectively.

Note 7 - Conditional Promises to Give

During 2014, the Foundation received a conditional promise to forgive liabilities totaling \$250,000. The donor will forgive the liability owed by the Foundation when the following conditions are met:

- A. Pay the balance of TM instruction fees less the \$250,000 forgiveness for the 2013-2014 fiscal year ending June 30, 2014 by July 30, 2014;

(continued)

DAVID LYNCH FOUNDATION

Notes to Financial Statements (Continued) June 30, 2014 and 2013

Note 7 - Conditional Promises to Give (Continued)

B. Stay current with TM instructional fees due from July 1, 2014 through July 2016.

Since the promise contains donor conditions, it will not be recorded as donated services until the conditions are met. The \$250,000 was recorded as a grant payable and will subsequently be recognized as donated services once the conditions are met.

Note 8 - Prior Period Adjustment

An error resulting in misstatements of previously reported grants payable and grants expense was discovered during the current year. The 2013 amounts listed below have been restated.

An adjustment was made to decrease grants payable and decrease grants expense by \$97,511. The effect on net assets was an increase of \$97,511.