

THE PREM RAWAT FOUNDATION

FINANCIAL STATEMENTS

December 31, 2011 and 2010

THE PREM RAWAT FOUNDATION
Los Angeles, California

FINANCIAL STATEMENTS
December 31, 2011 and 2010

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REPORT OF INDEPENDENT AUDITORS

To The Board of Directors
The Prem Rawat Foundation
Los Angeles, California

We have audited the accompanying statements of financial position of The Prem Rawat Foundation (the Foundation) as of December 31, 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 Foundation's management. 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 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 audits provide 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 Prem Rawat Foundation as of December 31, 2011 and 2010 and the results of its activities and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



Crowe Horwath LLP

Sherman Oaks, California
September 27, 2012

THE PREM RAWAT FOUNDATION
STATEMENTS OF FINANCIAL POSITION
December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 713,143	\$ 995,828
Contributions receivable	38,995	-
Prepaid expenses	4,862	19,184
Merchandise inventory	-	9,298
Other current assets	-	4,862
Total current assets	<u>757,000</u>	<u>1,029,172</u>
Net property and equipment	<u>12,119</u>	<u>9,844</u>
	<u>\$ 769,119</u>	<u>\$ 1,039,016</u>
 LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 45,529	\$ -
Grants payable	49,500	225,000
Other liabilities	-	12,686
Total current liabilities	<u>95,029</u>	<u>237,686</u>
Net assets:		
Temporarily Restricted	73,000	-
Unrestricted	<u>601,090</u>	<u>801,330</u>
Total net assets	<u>674,090</u>	<u>801,330</u>
	<u>\$ 769,119</u>	<u>\$ 1,039,016</u>

See accompanying notes to financial statements.

THE PREM RAWAT FOUNDATION
STATEMENT OF ACTIVITIES
For the year ended December 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues, gains, and other support:			
Contributions	\$ 1,226,135	\$ 73,000	\$ 1,299,135
Sales revenue	4,153	-	4,153
Public events	800	-	800
Program special events	149,368	-	149,368
Interest and dividend income	<u>2,808</u>	<u>-</u>	<u>2,808</u>
Total revenues, gains, and other support	<u>1,383,264</u>	<u>73,000</u>	<u>1,456,264</u>
Expenses:			
Program services			
Peace Initiative	557,399	-	557,399
Humanitarian Aid	<u>775,346</u>	<u>-</u>	<u>775,346</u>
Total program services	<u>1,332,745</u>	<u>-</u>	<u>1,332,745</u>
Support services			
Management and general	118,376	-	118,376
Fundraising	<u>132,383</u>	<u>-</u>	<u>132,383</u>
Total support services	<u>250,759</u>	<u>-</u>	<u>250,759</u>
Total expenses	<u>1,583,504</u>	<u>-</u>	<u>1,583,504</u>
Change in net assets	(200,240)	73,000	(127,240)
Net assets, beginning of the year	<u>801,330</u>	<u>-</u>	<u>801,330</u>
Net assets, end of the year	<u>\$ 601,090</u>	<u>\$ 73,000</u>	<u>\$ 674,090</u>

See accompanying notes to financial statements.

THE PREM RAWAT FOUNDATION
STATEMENT OF ACTIVITIES
For the year ended December 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues, gains, and other support:			
Contributions	\$ 1,425,370	\$ -	\$ 1,425,370
Sales revenue	505	-	505
Public events	880	-	880
Program special events	18,609	-	18,609
Interest and dividend income	19,389	-	19,389
Net assets released from restrictions (Note 5)	<u>260,000</u>	<u>(260,000)</u>	<u>-</u>
Total revenues, gains, and other support	<u>1,724,753</u>	<u>(260,000)</u>	<u>1,464,753</u>
Expenses:			
Program services:			
Peace Initiative	446,300	-	446,300
Humanitarian Aid	<u>1,045,492</u>	<u>-</u>	<u>1,045,492</u>
Total program services	<u>1,491,792</u>	<u>-</u>	<u>1,491,792</u>
Support services:			
Management and general	115,262	-	115,292
Fundraising	<u>95,928</u>	<u>-</u>	<u>95,928</u>
Total support services	<u>211,190</u>	<u>-</u>	<u>211,190</u>
Total expenses	<u>1,702,982</u>	<u>-</u>	<u>1,702,982</u>
Changes in net assets	<u>21,771</u>	<u>(260,000)</u>	<u>(238,229)</u>
Net assets, beginning of the year	<u>779,559</u>	<u>260,000</u>	<u>1,039,559</u>
Net assets, end of the year	<u>\$ 801,330</u>	<u>\$ -</u>	<u>\$ 801,330</u>

See accompanying notes to financial statements.

THE PREM RAWAT FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended December 31, 2011

	<u>Program Services</u>		<u>Support Services</u>		<u>Total Expenses</u>
	<u>Peace Initiative</u>	<u>Humanitarian Aid</u>	<u>Management and General</u>	<u>Fundraising</u>	
Charitable donations	\$ -	\$ 771,846	\$ -	\$ -	\$ 771,846
Grants for Materials Development	175,000	-	-	-	175,000
Production and material development	97,365	-	-	-	97,365
Development and Creative Marketing	56,072	-	-	-	56,072
Technology Support	18,515	-	596	-	19,111
Outside services	48,146	-	-	-	48,146
Salaries and wages	12,287	-	-	-	12,287
Professional fees	106,932	-	43,775	23,816	174,523
Distribution and fulfillment	-	-	48,676	-	48,676
Credit card and bank fees	28,375	-	-	-	28,375
Insurance	-	-	2,608	43,137	45,745
Depreciation	-	-	8,281	-	8,281
Office supplies	11,429	-	-	-	11,429
Fees and licenses	-	-	2,352	73	2,425
Computer supplies and equipment	-	-	2,726	-	2,726
Materials printed	-	-	-	346	346
Software development	-	-	-	17,168	17,168
Postage and delivery	-	-	-	4,850	4,850
Rent and storage	-	-	5,197	1,328	6,525
Travel	-	-	-	38,050	38,050
Telephone	3,278	3,500	2,040	3,615	12,433
Meals and entertainment	-	-	2,011	-	2,011
	-	-	114	-	114
Total expenses	\$ 557,399	\$ 775,346	\$ 118,376	\$ 132,383	\$ 1,583,504

See accompanying notes to financial statements.

THE PREM RAWAT FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended December 31, 2010

	Program Services		Support Services		Total Expenses
	Peace Initiative	Humanitarian Aid	Management and General	Fundraising	
Grants for humanitarian aid	\$ -	\$ 1,037,492	\$ -	\$ -	\$ 1,037,492
Grants for materials development	170,000	-	-	-	170,000
Production and material development	71,159	-	-	-	71,159
Development and creative	106,582	-	-	-	106,582
Marketing	2,931	-	915	-	3,846
Venue	7,661	-	-	-	7,661
Technology support	55,467	-	-	-	55,467
Outside services	-	8,000	-	-	8,000
Salaries and wages	-	-	-	23,253	23,253
Professional fees	-	-	77,153	-	77,153
Distribution and fulfillment	17,377	-	75	-	17,452
Credit card and bank fees	-	-	5,573	32,417	37,990
Insurance	-	-	7,493	-	7,493
Depreciation	15,123	-	-	-	15,123
Office supplies	-	-	7,674	-	7,674
Fees and licenses	-	-	12,553	-	12,553
Computer maintenance & repair	-	-	-	7,404	7,404
Materials printed	-	-	-	26,275	26,275
Software development	-	-	-	4,139	4,139
Postage and delivery	-	-	938	2,440	3,378
Travel	-	-	65	-	65
Telephone	-	-	2,692	-	2,692
Meals and entertainment	-	-	131	-	131
Total expenses	\$ 446,300	\$ 1,045,492	\$ 115,262	\$ 95,928	\$ 1,702,982

See accompanying notes to financial statements.

THE PREM RAWAT FOUNDATION
 STATEMENTS OF CASH FLOWS
 For the years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Decrease in net assets	\$ (127,240)	\$ (238,229)
Adjustments to reconcile decrease in net assets to net cash (used in) provided by operating activities:		
Depreciation	11,429	15,123
Change in operating assets and liabilities:		
Contributions receivable	(38,995)	-
Prepaid expenses	14,322	(19,184)
Merchandise inventory	9,298	52,438
Other current assets	4,862	49,824
Accounts payable and accrued expenses	45,529	(8,320)
Grants payable	(175,500)	225,000
Other liabilities	(12,686)	4,660
Net cash (used in) provided by operating activities	<u>(268,981)</u>	<u>81,312</u>
 Cash flows from investing activities		
Expenditures for property and equipment	<u>(13,704)</u>	<u>(9,232)</u>
Net cash used in investing activities	<u>(13,704)</u>	<u>(9,232)</u>
 Net (decrease) increase in cash and cash equivalents	(282,685)	72,080
 Beginning cash and cash equivalents	<u>995,828</u>	<u>923,748</u>
 Ending cash and cash equivalents	<u>\$ 713,143</u>	<u>\$ 995,828</u>

See accompanying notes to financial statements.

THE PREM RAWAT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2011 and 2010

NOTE 1 - ORGANIZATION

Organization and Activities: The Prem Rawat Foundation (the "Foundation" or "TPRF"), a California not-for-profit public benefit corporation, was created in November 2001. The purpose of the Foundation is to promote and disseminate to the general public the speeches, writings, music, art, and public forums of Prem Rawat. The Foundation advances the efforts of Prem Rawat to bring dignity, peace, and prosperity to people around the world.

The Foundation has funded initiatives in 36 countries for various humanitarian initiatives through contributions and expending these contributions according to their restrictions. These initiatives are made in tandem with organizations such as the World Food Program, Oxfam, Mercy Corps, AmeriCares and other smaller charitable organizations. TPRF planned, designed and implemented several critically needed programs. TPRF's model program called Food for People ("FFP") is based on Prem Rawat's desire to directly help people break out of the cycle of poverty. There are now three Food for People facilities: one in India, one in Nepal, and a third facility under construction in Ghana. Each facility serves over 100,000 hot nutritious meals every year to children, the sick and the elderly.

The Foundation also produces a number of print and online materials based on Prem Rawat's addresses in addition to course material for its Peace Education Program. In addition to the production of media materials, the Foundation sponsors and supports events where Prem Rawat speaks to interested people at universities, non-governmental organizations, and various other meetings.

During the fiscal year 2010 Words of Peace International, an unrelated entity, took over responsibilities that were previously part of The Prem Rawat Foundation's operations. The purpose of Words of Peace International is to promote and disseminate to the general public the message and peace of Prem Rawat through the development, creation, publication and distribution of literature, audio and audio-visual recordings and works in various media types and formats.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The accompanying financial statements have been prepared on the accrual basis of accounting. Revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed restrictions and that may be expendable for any purpose in performing the primary objectives of the Foundation.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or through the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying financial statements as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted contributions.

As of December 31, 2011, and 2010 the Foundation had \$73,000 and \$0, respectively, of temporarily restricted net assets, which were designated for disaster relief.

(Continued)

THE PREM RAWAT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2011 and 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that require that the amounts contributed be invested in perpetuity. In the absence of donor-imposed restrictions on the use of the income generated by permanently restricted net assets, income and gains generated from such contributions are available for the general operations and programs of the Foundation.

As of December 31, 2011 and 2010, the Foundation had no permanently restricted net assets.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates relate to the carrying value of merchandise inventory and property and equipment. Actual results could differ from those estimates.

Income Taxes: The Foundation has received a determination letter from the internal revenue service indicating that the Foundation is a not-for-profit corporation that has been approved for exemption from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from California income taxes under similar provisions of the California Revenue and Taxation Code.

The Foundation recognizes a tax benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. The Foundation has concluded that there are no significant uncertain tax positions and they do not expect any significant change in next twelve months. The tax years which remain subject to examination are December 31, 2007 to December 31, 2010 for Federal returns and December 31, 2006 to December 31, 2010 for California returns.

The Foundation’s policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of December 31, 2011 and 2010, the Company did not have any accrued interest or penalties associated with any unrecognized tax benefits.

Cash and Cash Equivalents: Cash and cash equivalents consist of interest-bearing deposits and highly liquid investments with original maturities of less than 90 days. Cash equivalents are carried at cost, which approximates fair value.

Merchandise Inventory: Merchandise inventory consists of printed materials. Inventories are stated at the lower of cost or market determined on a first-in, first-out basis.

Advertising: Advertising costs are charged to expense as incurred. Total advertising costs incurred during the years ended December 31, 2011 and 2010 were \$19,111 and \$3,846, respectively.

Property and Equipment: Property and equipment are recorded at historical cost or, if contributed, at estimated fair value at the date of contribution. Depreciation and amortization is computed using the straight-line method over the assets estimated useful life. Useful lives for property and equipment range from five to seven years. Expenditures for repairs and maintenance are charged to operations when incurred. Major renewals and betterments are capitalized. The capitalization threshold is \$1,000.

(Continued)

THE PREM RAWAT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2011 and 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributed Goods and Services: The value of significant contributed goods is reflected as contributions in the financial statements at the fair value of such goods at the date of contribution. Contributed services are recognized only if the services (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. During the years ended December 31, 2011 and 2010, there were no contributed goods and services.

Contributions Used For Long-Lived Assets: Gifts of cash or other assets that must be used to obtain land, buildings, equipment and other long-lived assets are reported as temporarily or permanently restricted revenue and net assets based on donor stipulations. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of temporarily restricted net assets to unrestricted net assets are reported when the long-lived assets are placed in service.

Impairment of Long-Lived Assets: The Foundation reviews its investment in long-lived assets for recoverability whenever events or changes in circumstances indicate the net carrying amount may not be recoverable. There were no events or changes in circumstances indicating that the carrying amount of property and equipment may not be recoverable for the years ended December 31, 2011 and 2010.

Functional Allocation of Expenses: The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of functional expenses for the years ended December 31, 2011 and 2010. Accordingly, certain costs have been allocated between the programs and supporting services benefited.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>2011</u>	<u>2010</u>
Computer equipment and software	\$ 238,151	\$ 224,447
Less accumulated depreciation	<u>(226,032)</u>	<u>(214,603)</u>
Property and equipment, net	<u>\$ 12,119</u>	<u>\$ 9,844</u>

NOTE 4 – GRANTS PAYABLE

As of December 31, 2011, \$49,500 of grants payable were payable to Preamsagar Foundation Nepal, a not for profit organization in Nepal for a Food for People facility in Nepal. As of December 31, 2010, \$225,000 of grants were payable to PremBas Foundation, a not for profit organization in Ghana for a third Food for People facility in Ghana. Each facility serves over 100,000 hot nutritious meals every year to children, the sick and the elderly.

(Continued)

THE PREM RAWAT FOUNDATION
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2011 and 2010

NOTE 5 – NET ASSETS

Temporarily restricted net assets are available primarily for humanitarian aid programs. These net assets are released from restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. Generally, satisfaction of the restriction is determined to be met when program expenses are incurred.

Temporarily restricted net assets are restricted for the following at December 31:

	<u>2011</u>	<u>2010</u>
Humanitarian aid	\$ 73,000	\$ -

NOTE 6 - MAJOR DONOR AND VENDORS

No individual contributions or donors contributed over 10% for the years ended December 31, 2011 and December 31, 2010.

No individual vendors accounted for purchased greater than 10% for the year ended December 31, 2011, Purchases from four vendors accounted for approximately 19%, 14%, 10% and 10% of purchases for the year ended December 31, 2010.

NOTE 7 - CONCENTRATION OF SOURCE MATERIALS

The Foundation focuses primarily on promoting the teachings and messages of Prem Rawat. The operations of the Foundation could be adversely affected in the event of the incapacity of Prem Rawat.

NOTE 8 – BENEFICIAL INTEREST IN TRUST

The Prem Rawat Foundation has a beneficial interest in a discretionary trust that holds the stock of Myrine Investments Limited, a company incorporated in the Island of Jersey, Channel Islands, which owns rental property in Australia. This beneficial ownership is derived from an instrument by the trustees of such trust, who exercised their powers to include an appointed class of beneficiaries and named The Prem Rawat Foundation as one of those beneficiaries. The trustees of the trust have variance power to distribute income and/or principal, and the Foundation's interest is conditional upon such action taking place. The Foundation's interest is not estimable at this time as the stock has not been transferred and also because the Foundation never formally accepted the stock of Myrine nor has it derived any benefit from such stock due to the encumbrances, restrictions, lease obligations, credit risks, illiquidity and the non-transferability related to the properties owned by Myrine in Australia. Due to the conditional nature of the beneficial interest, no assets or liabilities have been recorded in the accompanying financial statements.

(Continued)

NOTE 9 – SUBSEQUENT EVENTS

Management has performed an analysis of the activities and transactions subsequent to December 31, 2011 to determine the need for any adjustments to and/or disclosures within the financial statements for the year ended December 31, 2011. Management has performed their analysis of subsequent events through September 27, 2012, the date the financial statements were available to be issued.