

JEWEL HEART CORP.

FINANCIAL STATEMENTS

Years Ended December 31, 2008 and 2007

C O N T E N T S

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# **Dove & Hickey, P.L.C.**

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To the Board of Directors  
Jewel Heart Corp.

We have reviewed the accompanying statement of financial position of Jewel Heart Corp. (a nonprofit organization) as of December 31, 2008 and 2007, and the related statements of activities and cash flows for the years then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of Jewel Heart Corp.

A review consists principally of inquiries of Organization personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

# **Dove & Hickey, P.L.C.**

May 15, 2009

JEWEL HEART CORP.  
STATEMENT OF FINANCIAL POSITION  
December 31, 2008 and 2007

|   | <u>ASSETS</u>      |                    |
|---|--------------------|--------------------|
|   | <u>2008</u>        | <u>2007</u>        |
| Cash and cash equivalents   | \$ 208,223         | \$ 885,227         |
| Investment - Schwab   | 12,943             | 12,210             |
| Accounts receivable (net of allowance for<br>doubtful accounts of \$810 and \$6,000 for<br>2008 and 2007, respectively) | 1,585              | 3,050              |
| Note receivable - Jonas   | 10,195             | 14,933             |
| Inventory   | 59,913             | 33,392             |
| Prepaid expenses  | 3,227              | 5,909              |
| Deposits  | 3,895              | 3,945              |
| Land, building and equipment - net  | <u>2,008,202</u>   | <u>1,825,728</u>   |
| Total assets  | <u>\$2,308,183</u> | <u>\$2,784,394</u> |
| <br><u>LIABILITIES AND NET ASSETS</u><br>   |                    |                    |
| LIABILITIES:  |                    |                    |
| Accounts payable  | \$ 25,842          | \$ 21,922          |
| Customer deposits   | -0-                | 2,810              |
| Accrued liabilities   | 9,355              | 10,057             |
| Deferred revenue  | 30,760             | 2,750              |
| Note payable  | 962,313            | 1,475,000          |
| Capital lease   | <u>13,119</u>      | <u>-0-</u>         |
| Total liabilities   | <u>1,041,389</u>   | <u>1,512,539</u>   |
| NET ASSETS:   |                    |                    |
| Unrestricted  | 1,219,447          | 1,248,626          |
| Temporarily restricted  | <u>47,347</u>      | <u>23,229</u>      |
| Total net assets  | <u>1,266,794</u>   | <u>1,271,855</u>   |
| Total liabilities and net assets  | <u>\$2,308,183</u> | <u>\$2,784,394</u> |

See accompanying notes and accountants' review report.

JEWEL HEART CORP.  
STATEMENT OF ACTIVITIES  
Years Ended December 31, 2008 and 2007

|   | 2008               |                           |                    |
|---|--------------------|---------------------------|--------------------|
|   | UNRESTRICTED       | TEMPORARILY<br>RESTRICTED | TOTAL              |
| <b>REVENUE AND OTHER SUPPORT:</b>               |                    |                           |                    |
| General undesignated offerings                  | \$ 182,639         | \$ -0-                    | \$ 182,639         |
| Contributions                                   | 416,808            | -0-                       | 416,808            |
| Donated equipment                               | 31,477             | -0-                       | 31,477             |
| Retreats and tuition                            | 180,218            | -0-                       | 180,218            |
| Merchandise                                     | 150,762            | -0-                       | 150,762            |
| Miscellaneous                                   | 3,475              | -0-                       | 3,475              |
| Special events                                  | <u>16,972</u>      | <u>415,017</u>            | <u>431,989</u>     |
| Total revenue and other support                 | <u>982,351</u>     | <u>415,017</u>            | <u>1,397,368</u>   |
| <b>EXPENSES:</b>                                |                    |                           |                    |
| Cost of goods sold                              | 76,456             | -0-                       | 76,456             |
| Program services:                               |                    |                           |                    |
| National  | 719,220            | 391,317                   | 1,110,537          |
| Retreats  | 80,171             | -0-                       | 80,171             |
| Bookstore                                       | 24,281             | -0-                       | 24,281             |
| Supporting services:                            |                    |                           |                    |
| Administrative                                  | 94,583             | -0-                       | 94,583             |
| Fundraising                                     | <u>18,525</u>      | <u>-0-</u>                | <u>18,525</u>      |
| Total expenses                                  | <u>1,013,236</u>   | <u>391,317</u>            | <u>1,404,553</u>   |
| <b>CHANGE IN NET ASSETS FROM<br/>OPERATIONS</b> | <u>(30,885)</u>    | <u>23,700</u>             | <u>(7,185)</u>     |
| <b>NON-OPERATING INCOME:</b>                    |                    |                           |                    |
| Gain on sale of building                        | -0-                | -0-                       | -0-                |
| Interest and dividend income                    | 1,706              | 418                       | 2,124              |
| (Loss) on investments - realized                | <u>-0-</u>         | <u>-0-</u>                | <u>-0-</u>         |
| Total non-operating income                      | <u>1,706</u>       | <u>418</u>                | <u>2,124</u>       |
| <b>CHANGE IN NET ASSETS</b>                     | (29,179)           | 24,118                    | (5,061)            |
| <b>NET ASSETS AT BEGINNING OF YEAR</b>          | <u>1,248,626</u>   | <u>23,229</u>             | <u>1,271,855</u>   |
| <b>NET ASSETS AT END OF YEAR</b>                | <u>\$1,219,447</u> | <u>\$ 47,347</u>          | <u>\$1,266,794</u> |

See accompanying notes and accountants' review report.

2007

| <u>UNRESTRICTED</u> | <u>TEMPORARILY<br/>RESTRICTED</u> | <u>TOTAL</u>       |
|---------------------|-----------------------------------|--------------------|
| \$ 195,766          | \$ -0-                            | \$ 195,766         |
| 554,189             | 27,483                            | 581,672            |
| 74,000              | -0-                               | 74,000             |
| 250,787             | -0-                               | 250,787            |
| 188,381             | -0-                               | 188,381            |
| 11,770              | -0-                               | 11,770             |
| <u>17,176</u>       | <u>-0-</u>                        | <u>17,176</u>      |
| <u>1,292,069</u>    | <u>27,483</u>                     | <u>1,319,552</u>   |
| 101,356             | -0-                               | 101,356            |
| 498,856             | 43,529                            | 542,385            |
| 104,428             | -0-                               | 104,428            |
| 106,043             | -0-                               | 106,043            |
| 125,687             | -0-                               | 125,687            |
| <u>23,688</u>       | <u>-0-</u>                        | <u>23,688</u>      |
| <u>960,058</u>      | <u>43,529</u>                     | <u>1,003,587</u>   |
| <u>332,011</u>      | <u>(16,046)</u>                   | <u>315,965</u>     |
| 548,128             | -0-                               | 548,128            |
| 2,237               | 487                               | 2,724              |
| <u>(520)</u>        | <u>-0-</u>                        | <u>(520)</u>       |
| <u>549,845</u>      | <u>487</u>                        | <u>550,332</u>     |
| 881,856             | (15,559)                          | 866,297            |
| <u>366,770</u>      | <u>38,788</u>                     | <u>405,558</u>     |
| <u>\$1,248,626</u>  | <u>\$ 23,229</u>                  | <u>\$1,271,855</u> |

JEWEL HEART CORP.  
STATEMENT OF CASH FLOWS  
Years Ended December 31, 2008 and 2007

|   | <u>2008</u>       | <u>2007</u>       |
|---|-------------------|-------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                   |                   |
| Change in net assets  | (\$ 5,061)        | \$ 866,297        |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: |                   |                   |
| Depreciation and amortization   | 65,459            | 19,848            |
| Noncash donation included in contributions  | (31,477)          | (70,000)          |
| Gain on sale of building  | -0-               | (548,128)         |
| Loss on investments - realized  | (5,190)           | 520               |
| Changes in operating assets and liabilities:  |                   |                   |
| Accounts receivable   | 6,655             | 5,292             |
| Note receivable - Jonas   | 4,738             | (14,933)          |
| Inventory   | (26,521)          | 9,421             |
| Prepaid expenses  | 2,682             | (5,909)           |
| Deposits  | 50                | (610)             |
| Accounts payable  | 3,920             | 11,884            |
| Customer deposits   | (2,810)           | (10,258)          |
| Accrued liabilities and deferred revenue  | <u>27,308</u>     | <u>(3,928)</u>    |
| Net cash provided (used) by operating activities  | <u>39,753</u>     | <u>259,496</u>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                   |                   |
| Purchase of property and equipment  | (216,456)         | (270,170)         |
| Purchase of investments   | (733)             | (28,524)          |
| Proceeds from sale of building  | -0-               | 1,289,237         |
| Proceeds from sale of investments   | <u>-0-</u>        | <u>16,153</u>     |
| Net cash provided (used) by investing activities  | <u>(217,189)</u>  | <u>1,006,696</u>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |                   |                   |
| Net increase (decrease) in capital leases   | 13,119            | -0-               |
| Net increase (decrease) in long-term debt   | <u>(512,687)</u>  | <u>(535,077)</u>  |
| Net cash provided (used) by financing activities  | <u>(499,568)</u>  | <u>(535,077)</u>  |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                                 | (677,004)         | 731,115           |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>                                       | <u>885,227</u>    | <u>154,112</u>    |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>   | <u>\$ 208,223</u> | <u>\$ 885,227</u> |

See accompanying notes and accountants' review report.

JEWEL HEART CORP.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2008

Jewel Heart Corp., with its national office in Ann Arbor, Michigan, is a non-profit organization exempt from income tax under Internal Revenue Code Section 501(c)(3). It is a religious organization dedicated to support the Buddhist community and others in their spiritual development through teaching conferences, seminars and ceremonies through the sale of religious books and merchandise. Jewel Heart Corp., maintains local chapters in Cleveland, Ohio; New York, New York; Chicago, Illinois; and Lincoln, Nebraska. Jewel Heart Corp., is supported primarily through contributions from its members.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

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

Property and Equipment

Property and equipment are carried at cost. Expenditures for major renewals and improvements that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation of property and equipment is provided using the straight-line method at rates based on the following estimated useful lives:

|                           | <u>YEARS</u> |
|---------------------------|--------------|
| Building and improvements | 7 - 39       |
| Equipment                 | 3 - 15       |

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. All restricted contributions whose restrictions are met in the same reporting period are shown as unrestricted support.

Donated Services and Facilities

Jewel Heart Corp., receives a substantial amount of services donated by its members in carrying out its teachings. No amount has been recognized for the years ended December 31, 2008 and 2007, in the accompanying statement of activities because the criteria for recognition of such volunteer effort under SFAS No. 116 has not been satisfied.

JEWEL HEART CORP.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Property and Equipment

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Corporation reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, Jewel Heart Corp., is required to report information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Jewel Heart Corp., does not have any permanently restricted net assets.

Cash and Cash Equivalents

For purposes of the statement of cash flows the organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Investments

Jewel Heart Corp., carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities. Donated investments are recorded at fair market value at the date of gift.

JEWEL HEART CORP.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Accounts receivable balances over 90 days outstanding at December 31, 2008 and 2007, is \$2,345 and \$8,875, respectively.

Inventory

Inventory consists of books, statues and other items for sale in the bookstore. Inventory is stated at the lower of cost or market, determined on a first-in, first-out basis.

Advertising Costs

Advertising costs for the years ended December 31, 2008 and 2007, were \$4,621 and \$7,266, respectively. Advertising costs are charged to operations when incurred.

2. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2008 and 2007, is summarized as follows by major classification:

|                                | <u>2008</u>        | <u>2007</u>        |
|--------------------------------|--------------------|--------------------|
| Land                           | \$ 175,000         | \$ 175,000         |
| Building and improvements      | 1,755,222          | 1,562,500          |
| Equipment                      | 71,192             | 49,587             |
| Religious articles             | 17,479             | 17,479             |
| Furniture and fixtures         | <u>110,153</u>     | <u>82,837</u>      |
|                                | 2,129,046          | 1,887,403          |
| Less: Accumulated depreciation | <u>(120,844)</u>   | <u>61,675</u>      |
| Property and equipment - net   | <u>\$2,008,202</u> | <u>\$1,825,728</u> |
| Depreciation expense           | <u>\$ 65,459</u>   | <u>\$ 18,094</u>   |

JEWEL HEART CORP.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2008

3. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31, 2008 and 2007:

|                         | <u>2008</u>      | <u>2007</u>      |
|-------------------------|------------------|------------------|
| Nyang Book Project      | \$ -0-           | \$ 4,000         |
| Tibet Education Project | 147              | 147              |
| Buddha Image            | -0-              | 6,557            |
| Rimpoche Annuity        | 12,943           | 12,525           |
| H.H. Dalai Lama         | <u>34,257</u>    | <u>-0-</u>       |
|                         | <u>\$ 47,347</u> | <u>\$ 23,229</u> |

4. LEASES

Operating Leases

The Corporation leases office space, meeting space and office equipment. Most leases include renewal options for varying periods. The leases are recorded as operating leases. Total rental expense under operating lease agreements is \$40,894 and \$30,870 for the years ended December 31, 2008 and 2007, respectively. As of December 31, 2008, the Corporation did not have any operating leases with initial or remaining noncancelable lease terms in excess of one year.

5. CAPITAL LEASE

The Corporation leases telephone equipment under a noncancelable lease that is classified as a capital lease that expires in 2012.

The cost of the equipment under capital lease was \$15,339 and is recorded in the Corporation's property and equipment.

Future minimum lease payments under capital leases are as follows:

| <u>YEARS</u>                            |                  |
|---|------------------|
| 2009                                    | \$ 4,005         |
| 2010                                    | 4,005            |
| 2011                                    | 4,005            |
| 2012                                    | <u>4,005</u>     |
| Total minimum lease payments            | 16,020           |
| Less amount representing interest       | <u>2,901</u>     |
| Present value of minimum lease payments | <u>\$ 13,119</u> |

Amortization of assets under capital leases is included with depreciation expense.

JEWEL HEART CORP.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2008

6. INVESTMENTS

Components of investments as of December 31, 2008 and 2007 are as follows:

|               | <u>2008</u>       | <u>2007</u>       |
|---------------|-------------------|-------------------|
|               | <u>Fair Value</u> | <u>Fair Value</u> |
| Treasury bill | \$ <u>12,943</u>  | \$ <u>12,210</u>  |

7. NOTES PAYABLE

|  | <u>2008</u>       | <u>2007</u>        |
|--|-------------------|--------------------|
| Note payable for building - United Bank & Trust. Secured by real property, monthly payments of \$6,941, including interest at 6.92%. | \$ 962,313        | \$ -0-             |
| Land contract for building - Oak Valley Drive. Secured by real property, monthly payments of interest only at 7%.                    | <u>-0-</u>        | <u>1,475,000</u>   |
|  | <u>\$ 962,313</u> | <u>\$1,475,000</u> |

Maturities of long-term debt of each of the years succeeding December 31, 2008, are as follows:

| <u>YEARS</u> | <u>PRINCIPAL MATURITY</u> |
|--------------|---------------------------|
| 2009         | \$ 16,235                 |
| 2010         | 17,412                    |
| 2011         | 18,675                    |
| 2012         | 20,029                    |
| 2013         | <u>889,962</u>            |
|              | <u>\$ 962,313</u>         |

8. FUNCTIONAL ALLOCATION OF EXPENSES

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

JEWEL HEART CORP.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2008

9. CASH FLOWS STATEMENT

|                                | <u>2008</u>      | <u>2007</u>      |
|--------------------------------|------------------|------------------|
| Cash paid during the year for: |                  |                  |
| Interest                       | \$ <u>65,670</u> | \$ <u>19,388</u> |

Supplemental Disclosures of Noncash Financing Activities

In 2007 the Corporation acquired the Oak Valley property on a \$1,475,000 land contract. In 2008 \$975,000 of the land contract was refinanced with a mortgage.

10. RETIREMENT PLAN

Effective in April, 2006, the organization implemented a SIMPLE Plan under Section 408 of the Internal Revenue Service Code for eligible employees. The company provides an employer matching contribution of up to three percent (3%) of the employee's salary. Total company cost for the years ended December 31, 2008 and 2007, was \$7,167 and \$6,965, respectively.

11. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Cash and cash equivalents - Fair value approximates carrying value due to the initial maturities of the instruments being three months or less.

Investments - The fair value of investments is determined upon quoted prices in active markets for identical assets (Level 1).

Bank loan payable - Fair value approximates carrying value since stated rates are similar to rates currently available to the Corporation for debt with similar terms and remaining maturities.

The fair value of the Corporation's financial instruments at December 31, 2008, are as follows:

|                           | <u>Carrying<br/>Amount</u> | <u>Fair<br/>Value</u> |
|---------------------------|----------------------------|-----------------------|
| Financial assets:         |                            |                       |
| Cash and cash equivalents | \$208,223                  | \$208,223             |
| Investments               | 12,943                     | 12,943                |
| Financial liabilities:    |                            |                       |
| Bank loan payable         | 962,313                    | 962,313               |