JEWEL HEART CORP.

FINANCIAL STATEMENTS

Years Ended December 31, 2012 and 2011

C O N T E N T S

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Jewel Heart Corp.

We have audited the accompanying financial statements of Jewel Heart Corp. (a nonprofit organization) which comprise the statement of financial position as of December 31, 2012, and the related statements of activities and cash flows for the year 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 of 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 qualified audit opinion.

Basis for Qualified Opinion

We did not observe the counting of the physical inventory as of December 31, 2011, since that date was prior to the time we were initially engaged as auditors. Owing to the nature of the Organization's records, we were unable to satisfy ourselves as to inventory quantities by other audit procedures.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis of Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Jewel Heart Corp. as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other-Matter

The 2011 financial statements were reviewed by us and our report thereon, dated April 18, 2012, stated we were not aware of any material modifications that should be made to those statements for them to be in conformity with generally accepted accounting principles. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements taken as a whole.

Dove & Hickey, P.L.C.

March 26, 2013

JEWEL HEART CORP.
STATEMENT OF FINANCIAL POSITION
December 31, 2012 and 2011

ASSETS

	2012	2011
CURRENT ASSETS:		
Cash and cash equivalents	$ 187,991	$ 166,200
Inventory	41,755	50,156
Deposits	35,081	3,500
Total current assets	264,827	219,856
PROPERTY AND EQUIMENT:		
Land	175,000	175,000
Building and improvements	1,766,090	1,766,090
Equipment	81,913	80,641
Religious articles	17,479	17,479
Furniture and fixtures	112,634	112,634
	2,153,116	2,151,844
Less: accumulated depreciation	(391,363)	(323,235)
Total property and equipment	1,761,753	1,828,609
Total assets	$2,026,580	$2,048,465

LIABILITIES AND NET ASSETS

	2012	2011
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 39,069	$ 909,703
Accounts payable	78,142	36,965
Customer deposits	1,420	2,519
Accrued liabilities	12,538	10,650
Deferred revenue	-0-	2,000
Capital lease	289	4,072
Total current liabilities	131,458	965,909
LONG-TERM DEBT (net of current portion)	851,240	-0-
NET ASSETS:		
Unrestricted	994,619	1,001,223
Temporarily restricted	49,263	81,333
Total net assets	1,043,882	1,082,556
Total liabilities and net assets	$2,026,580	$2,048,465

See accompanying notes to financial statements.

JEWEL HEART CORP.
STATEMENT OF ACTIVITIES
Years Ended December 31, 2012 and 2011

	2012		
	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
REVENUE AND OTHER SUPPORT:			
General undesignated offerings	$ 250,892	$ -0-	$ 250,892
Contributions	384,331	19,746	404,077
Retreats and tuition	210,995	-0-	210,995
Merchandise	72,330	-0-	72,330
Electronic media income	27,553	-0-	27,553
Miscellaneous	7,158	-0-	7,158
Special events	1,886	-0-	1,886
Net assets released from restrictions:			
Restrictions satisfied by payments	51,816	(51,816)	-0-
Total revenue and other support	1,006,961	(32,070)	974,891
EXPENSES:			
Cost of goods sold	49,924	-0-	49,924
Program services:			
National	696,978	-0-	696,978
Retreats	80,968	-0-	80,968
Bookstore	18,178	-0-	18,178
Supporting services:			
Administrative	153,313	-0-	153,313
Fundraising	14,204	-0-	14,204
Total expenses	1,013,565	-0-	1,013,565
CHANGE IN NET ASSETS	(6,604)	(32,070)	(38,674)
NET ASSETS AT BEGINNING OF YEAR	1,001,223	81,333	1,082,556
NET ASSETS AT END OF YEAR	$ 994,619	$ 49,263	$1,043,882

See accompanying notes to financial statements.

2011		
UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
$ 255,460	$ -0-	$ 255,460
523,815	73,768	597,583
191,751	-0-	191,751
81,004	-0-	81,004
22,678	-0-	22,678
6,155	-0-	6,155
5,005	-0-	5,005
17,095	(17,095)	-0-
1,102,963	56,673	1,159,636
51,916	-0-	51,916
862,527	-0-	862,527
80,174	-0-	80,174
15,573	-0-	15,573
154,511	-0-	154,511
15,088	-0-	15,088
1,179,789	-0-	1,179,789
(76,826)	56,673	(20,153)
1,078,049	24,660	1,102,709
$1,001,223	$ 81,333	$1,082,556

JEWEL HEART CORP.
STATEMENT OF CASH FLOWS
Years Ended December 31, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	($ 38,674)	($ 20,153)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	68,128	67,992
Changes in operating assets and liabilities:		
Accounts receivable	-0-	300
Inventory	8,401	2,917
Prepaid expenses	-0-	213
Deposits	(31,581)	-0-
Accounts payable	41,177	8,124
Customer deposits	(1,099)	(2,964)
Accrued liabilities and deferred revenue	(112)	763
Net cash provided by operating activities	46,240	57,192
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(1,272)	(4,914)
Net cash (used) in investing activities	(1,272)	(4,914)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on capital leases	(3,783)	(3,352)
Principal payments on long-term debt	(19,394)	(18,746)
Net cash (used) in financing activities	(23,177)	(22,098)
NET INCREASE IN CASH AND CASH EQUIVALENTS	21,791	30,180
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	166,200	136,020
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 187,991	$ 166,200

See accompanying notes to financial statements.

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Jewel Heart Corp. is a non-profit organization (the "Organization") exempt from income tax under Internal Revenue Code Section 501(c)(3). The national office is located in Ann Arbor, Michigan. It is a religious organization dedicated to support the Buddhist community and others in their spiritual development through teaching conferences, seminars and ceremonies, and 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 it's members.

Basis of Accounting

The financial statements of Jewel Heart Corp. have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles 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. Actual results could differ from those estimates.

Property and Equipment

Property and equipment are carried at cost. Additions and betterments for major renewals and improvements that extend the useful lives of property and equipment of $500 or more 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:

	YEARS
Building and improvements	7 - 39
Equipment	3 - 15

Contributions

The Organization follows the Not-For-Profit Entities subtopic and Revenue Recognition subtopic of the FASB Accounting Standards Codification with respect to contributions. In accordance with these subtopics, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. All restricted contributions whose restrictions are met in the same reporting period are shown as unrestricted support.

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Services

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Jewel Heart Corp. receives a substantial amount of services donated by its members in carrying out its teachings. No amount has been recognized in the accompanying statement of activities since the recognition criteria were not met.

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 Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor.

Basis of Presentation

The Organization follows the Not-For-Profit Entities topic of the FASB Accounting Standards Codification with respect to financial statement presentation. Under this topic, the Organization is required to report information regarding its financial position and activities according to the three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Organization is required to present a statement of cash flows.

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.

Date of Management's Review

Subsequent events have been evaluated through March 26, 2013, which is the date the financial statements were available to be issued. No subsequent events were noted by the Organization.

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The Organization follows the Not-For-Profit Entities topic of the FASB Accounting Standards Codification with respect to advertising costs. In accordance with this topic, advertising expenses are considered direct costs and are not considered to have a direct-response relationship to sales and therefore these expenses are recognized as incurred. No amounts of advertising are capitalized. Advertising costs for the years ended December 31, 2012 and 2011 were $6,470 and $1,560, respectively.

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.

Deferred Revenue

Income from retreat tuition is deferred and recognized over the periods to which the tuition relates.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

2. LEASES

Operating Leases

The Organization leases office space, meeting space and office equipment. One of the leases is from a Board member. Most leases include renewal options for varying periods. The leases are recorded as operating leases. Total rental expense under operating lease agreements is $67,355 and $63,934 for the years ended December 31, 2012 and 2011, respectively. As of December 31, 2012, the Organization did not have any operating leases with initial or remaining non-cancelable lease terms in excess of one year.

3. CAPITAL LEASE

The Organization leases telephone equipment under a noncancelable lease that is classified as a capital lease that expires in 2013.

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

Future minimum lease payments under capital leases are as follows:

	2012	2011
Total minimum lease payments	$ 289	$ 4,339
Less amount representing interest	-0-	267
Present value of minimum lease payments	$ 289	$ 4,072

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

4. NOTES PAYABLE

	2012	2011
Note payable for building - United Bank & Trust. Secured by real property, monthly payments of $6,825, including interest at 5.00%. Refinanced in 2012. Payments of $6,941 in 2011 with interest at 6.92%.	$ 890,309	$ 909,703
Less: current portion	39,069	909,703
Long-term debt net of current portion	$ 851,240	$ -0-

Maturities of long-term debt of each of the years succeeding December 31, 2012, are as follows:

YEARS	PRINCIPAL MATURITY
2013	$ 39,069
2014	40,249
2015	42,308
2016	44,473
2017	724,210
	$ 890,309

5. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31, 2012 and 2011:

	2012	2011
Capital Improvements - Kitchen and Bathroom	$ 3,437	$ 3,437
H.H. Dalai Lama	4,128	4,128
Transcript project	951	951
Dharma distribution project	20,055	50,085
Pilgrimage	946	22,192
Concert	-0-	540
Locho Rimpoche	19,746	-0-
	$ 49,263	$ 81,333

6. CASH FLOWS STATEMENT

	2012	2011
Cash paid during the year for:		
Interest	$ 67,168	$ 65,722

The Organization had a noncash financing transaction relating to the renewal of the mortgage in the amount of $893,199 for the year ended December 31, 2012.

7. 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 Organization provides an employer matching contribution of up to three percent (3%) of the employee's salary. Total cost for the years ended December 31, 2012 and 2011, was $8,379 and $8,289, respectively.

8. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Organization's financial instruments are cash and cash equivalents, inventory, accounts payable, accrued liabilities and a bank loan payable. The recorded values of cash and cash equivalents, inventory, accounts payable and accrued liabilities approximate their fair values based on their short-term nature. The recorded value of the bank loan payable approximates fair value, as the present value discount rate approximates current market rates.

9. FAIR VALUE MEASUREMENTS

The Fair Value Measurements and Disclosure topic of the FASB Accounting Standards Codification establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority. The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of it financial instruments. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs would be used only when Level 1 or Level 2 inputs were not available.

Fair Value Measurements at December 31, 2012

	Carrying Amount	Fair Value
Financial assets:		
Cash and cash equivalents	$ 187,991	$ 187,991
Inventory	41,755	41,755
Financial liabilities:		
Accounts payable	$ 78,142	$ 78,142
Accrued liabilities	12,538	12,538
Bank loan payable	890,309	890,309

Fair Value Measurements at December 31, 2011

	Carrying Amount	Fair Value
Financial assets:		
Cash and cash equivalents	$ 166,200	$ 166,200
Inventory	50,156	50,156
Financial liabilities:		
Accounts payable	$ 36,965	$ 36,965
Accrued liabilities	10,650	10,650
Bank loan payable	909,703	909,703