

JEWEL HEART CORP.

FINANCIAL STATEMENTS

Years Ended December 31, 2013 and 2012

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INDEPENDENT ACCOUNTANTS' REPORT

To the Board of Directors
Jewel Heart Corp.

We have reviewed the accompanying financial statements of Jewel Heart Corp. (a nonprofit organization) which comprise the statement of financial position as of December 31, 2013, and the related statements of activities and cash flows for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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 and for designing, implementing, and maintaining internal control relevant to the preparation fair presentation of financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, we are not aware of any material modifications that should be made to the accompanying 2013 financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

The financial statements for the year ended December 31, 2012, were audited by us, and we expressed a qualified opinion on them in our report dated March 26, 2013, but we have not performed any auditing procedures since that date. The basis for the qualified opinion was that 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.

Dove, Hickey & Boswell, P.L.C.

April 22, 2014

JEWEL HEART CORP.
STATEMENT OF FINANCIAL POSITION
December 31, 2013 (Unaudited) and 2012 (Audited)

	<u>ASSETS</u>	<u>2013</u>	<u>2012</u>
CURRENT ASSETS:			
Cash and cash equivalents		\$ 170,022	\$ 187,991
Accounts receivable, net of allowance for doubtful accounts of \$ -0- in 2013		3,106	-0-
Inventory		35,518	41,755
Deposits		<u>35,081</u>	<u>35,081</u>
Total current assets		<u>243,727</u>	<u>264,827</u>
PROPERTY AND EQUIPMENT:			
Land		175,000	175,000
Building and improvements		1,766,090	1,766,090
Equipment		86,292	81,913
Religious articles		17,479	17,479
Furniture and fixtures		<u>112,634</u>	<u>112,634</u>
		2,157,495	2,153,116
Less: accumulated depreciation		<u>(458,465)</u>	<u>(391,363)</u>
Total property and equipment		<u>1,699,030</u>	<u>1,761,753</u>
Total assets		<u>\$1,942,757</u>	<u>\$2,026,580</u>
<u>LIABILITIES AND NET ASSETS</u>			
CURRENT LIABILITIES:			
Current portion of long-term debt		\$ 40,249	\$ 39,069
Accounts payable		44,688	78,142
Customer deposits		1,620	1,420
Accrued liabilities		11,248	12,538
Capital lease		<u>-0-</u>	<u>289</u>
Total current liabilities		<u>97,805</u>	<u>131,458</u>
LONG-TERM DEBT (net of current portion)		<u>809,060</u>	<u>851,240</u>
NET ASSETS:			
Unrestricted		967,165	994,619
Temporarily restricted		<u>68,727</u>	<u>49,263</u>
Total net assets		<u>1,035,892</u>	<u>1,043,882</u>
Total liabilities and net assets		<u>\$1,942,757</u>	<u>\$2,026,580</u>

See accompanying notes and accountants' review report.

JEWEL HEART CORP.
STATEMENT OF ACTIVITIES
Years Ended December 31, 2013 (Unaudited) and 2012 (Audited)

	2013		
	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
REVENUE AND OTHER SUPPORT:			
General undesignated offerings	\$ 234,148	\$ -0-	\$ 234,148
Contributions	550,275	40,156	590,431
Retreats and tuition	41,595	-0-	41,595
Merchandise	50,225	-0-	50,225
Electronic media income	36,283	-0-	36,283
Miscellaneous	3,277	-0-	3,277
Special events	428	-0-	428
Net assets released from restrictions:			
Restrictions satisfied by payments	<u>20,692</u>	<u>(20,692)</u>	<u>-0-</u>
Total revenue and other support	<u>936,923</u>	<u>19,464</u>	<u>956,387</u>
EXPENSES:			
Cost of goods sold	29,398	-0-	29,398
Program services:			
National	715,981	-0-	715,981
Retreats	28,746	-0-	28,746
Bookstore	14,860	-0-	14,860
Supporting services:			
Administrative	157,767	-0-	157,767
Fundraising	<u>17,625</u>	<u>-0-</u>	<u>17,625</u>
Total expenses	<u>964,377</u>	<u>-0-</u>	<u>964,377</u>
CHANGE IN NET ASSETS	(27,454)	19,464	(7,990)
NET ASSETS AT BEGINNING OF YEAR	<u>994,619</u>	<u>49,263</u>	<u>1,043,882</u>
NET ASSETS AT END OF YEAR	<u>\$ 967,165</u>	<u>\$ 68,727</u>	<u>\$1,035,892</u>

See accompanying notes and accountants' review report.

2012

<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
\$ 250,892	\$ -0-	\$ 250,892
384,331	19,746	404,077
210,995	-0-	210,995
72,330	-0-	72,330
27,553	-0-	27,553
7,158	-0-	7,158
1,886	-0-	1,886
<u>51,816</u>	<u>(51,816)</u>	<u>-0-</u>
<u>1,006,961</u>	<u>(32,070)</u>	<u>974,891</u>
49,924	-0-	49,924
696,978	-0-	696,978
80,968	-0-	80,968
18,178	-0-	18,178
153,313	-0-	153,313
<u>14,204</u>	<u>-0-</u>	<u>14,204</u>
<u>1,013,565</u>	<u>-0-</u>	<u>1,013,565</u>
(6,604)	(32,070)	(38,674)
<u>1,001,223</u>	<u>81,333</u>	<u>1,082,556</u>
<u>\$ 994,619</u>	<u>\$ 49,263</u>	<u>\$1,043,882</u>

JEWEL HEART CORP.
STATEMENT OF CASH FLOWS
Years Ended December 31, 2013 (Unaudited) and 2012 (Audited)

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	(\$ 7,990)	(\$ 38,674)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	67,102	68,128
Changes in operating assets and liabilities:		
Accounts receivable	(3,106)	-0-
Inventory	6,237	8,401
Deposits	-0-	(31,581)
Accounts payable	(33,454)	41,177
Customer deposits	200	(1,099)
Accrued liabilities and deferred revenue	<u>(1,290)</u>	<u>(112)</u>
Net cash provided by operating activities	<u>27,699</u>	<u>46,240</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	<u>(4,379)</u>	<u>(1,272)</u>
Net cash (used) in investing activities	<u>(4,379)</u>	<u>(1,272)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on capital leases	(289)	(3,783)
Principal payments on long-term debt	<u>(41,000)</u>	<u>(19,394)</u>
Net cash (used) in financing activities	<u>(41,289)</u>	<u>(23,177)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(17,969)	21,791
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>187,991</u>	<u>166,200</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 170,022</u>	<u>\$ 187,991</u>

See accompanying notes and accountants' review report.

JEWEL HEART CORP.
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

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, and accordingly reflect all significant receivables, payables, and other liabilities.

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.

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. Changes in the valuation allowance have not been material to the financial statements.

JEWEL HEART CORP.
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

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

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:

	<u>YEARS</u>
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.

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.

JEWEL HEART CORP.
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

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

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 April 22, 2014, which is the date the financial statements were available to be issued. No subsequent events were noted by the Organization.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state law.

The accounting standards on accounting for uncertainty in income taxes address the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Organization and various positions related to the potential sources of unrelated business taxable income (UBIT). The tax benefit recognized in the financial statements from a tax position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for fiscal year 2013 and 2012.

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.

JEWEL HEART CORP.
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

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

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, 2013 and 2012 were \$2,162 and \$6,470, 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.

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 \$68,969 and \$67,355 for the years ended December 31, 2013 and 2012, respectively. As of December 31, 2013, the Organization did not have any operating leases with initial or remaining non-cancelable lease terms in excess of one year.

3. NOTES PAYABLE

	<u>2013</u>	<u>2012</u>
Note payable for building - United Bank & Trust. Secured by real property, monthly payments of \$6,825, including interest at 5.00%.	\$ 849,309	\$ 890,309
Less: current portion	<u>40,249</u>	<u>39,069</u>
Long-term debt net of current portion	<u>\$ 809,060</u>	<u>\$ 851,240</u>

JEWEL HEART CORP.
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

3. NOTES PAYABLE (Continued)

Maturities of long-term debt of each of the years succeeding December 31, 2013, are as follows:

<u>YEARS</u>	<u>PRINCIPAL MATURITY</u>
2014	\$ 40,249
2015	42,308
2016	44,473
2017	<u>722,279</u>
	<u>\$ 849,309</u>

4. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
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	20,055
Pilgrimage	40,156	946
Locho Rimpoche	<u>-0-</u>	<u>19,746</u>
	<u>\$ 68,727</u>	<u>\$ 49,263</u>

5. CASH FLOWS STATEMENT

	<u>2013</u>	<u>2012</u>
Cash paid during the year for:		
Interest	<u>\$ 40,943</u>	<u>\$ 67,168</u>

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.

6. 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, 2013 and 2012, was \$7,824 and \$8,379, respectively.

JEWEL HEART CORP.
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

7. 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.

8. 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 its 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, 2013

	<u>Carrying Amount</u>	<u>Fair Value</u>
<u>Financial assets:</u>		
Cash and cash equivalents	\$ 170,022	\$ 170,022
Inventory	35,518	35,518
<u>Financial liabilities:</u>		
Accounts payable	\$ 44,688	\$ 44,688
Accrued liabilities	11,248	11,248
Bank loan payable	849,309	849,309

Fair Value Measurements at December 31, 2012

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