

**JEWEL HEART CORP.**

**FINANCIAL STATEMENTS**

**Years Ended December 31, 2014 and 2013**

## C O N T E N T S

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1 - 2
FINANCIAL STATEMENTS:	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Notes to Financial Statements	6 - 11

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

**CERTIFIED PUBLIC ACCOUNTANTS**

209 E. Washington Ave., Suite 255 • Jackson, Michigan 49201  
Phone (517) 796-8880 • Fax (517) 796-8777

## **MEMBERS:**

**AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS**

**MICHIGAN ASSOCIATION OF  
CERTIFIED PUBLIC ACCOUNTANTS**

**JOSEPH M. BOSWELL, C.P.A.  
ALLISON I. ARNETT, C.P.A.  
GEORGE DOVE, C.P.A.  
PAUL T. HICKEY, C.P.A.  
JARED S. KONO, C.P.A.  
NANNETTE M. SPONSER, C.P.A.**

## **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, 2014, 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 audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Jewel Heart Corp. as of December 31, 2014, 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 December 31, 2013 financial statements were reviewed by us and our report thereon, dated April 22, 2014, 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 & Boswell, P.L.C.*

July 2, 2015

JEWEL HEART CORP.  
STATEMENTS OF FINANCIAL POSITION  
December 31, 2014 (Audited) and 2013 (Unaudited)

	<u>ASSETS</u>	<u>2014</u>	<u>2013</u>
CURRENT ASSETS:			
Cash and cash equivalents		\$ 250,429	\$ 170,022
Accounts receivable, net of allowance for doubtful accounts of \$-0- in 2014 & 2013		1,013	3,106
Inventory		42,193	35,518
Investments		5,251	-0-
Deposits		<u>5,159</u>	<u>35,081</u>
Total current assets		<u>304,045</u>	<u>243,727</u>
PROPERTY AND EQUIPMENT:			
Land		175,000	175,000
Building and improvements		1,766,090	1,766,090
Equipment		91,352	82,292
Religious articles		17,479	17,479
Furniture and fixtures		<u>112,634</u>	<u>112,634</u>
		2,162,555	2,157,495
Less: accumulated depreciation		<u>(524,910)</u>	<u>(458,465)</u>
Total property and equipment		<u>1,637,645</u>	<u>1,699,030</u>
Total assets		<u>\$1,941,690</u>	<u>\$1,942,757</u>
<u>LIABILITIES AND NET ASSETS</u>			
CURRENT LIABILITIES:			
Current portion of long-term debt		\$ 42,308	\$ 40,249
Accounts payable		1,313	44,688
Customer deposits		620	1,620
Deferred revenue		23,800	-0-
Accrued liabilities		<u>9,850</u>	<u>11,248</u>
Total current liabilities		<u>77,891</u>	<u>97,805</u>
LONG-TERM DEBT (net of current portion)		<u>766,893</u>	<u>809,060</u>
NET ASSETS:			
Unrestricted		973,798	967,165
Temporarily restricted		<u>123,108</u>	<u>68,727</u>
Total net assets		<u>1,096,906</u>	<u>1,035,892</u>
Total liabilities and net assets		<u>\$1,941,690</u>	<u>\$1,942,757</u>

See accompanying notes to financial statements.

JEWEL HEART CORP.  
STATEMENTS OF ACTIVITIES  
Years Ended December 31, 2014 (Audited) and 2013 (Unaudited)

		2014	
	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE AND OTHER SUPPORT:			
General undesignated offerings	\$ 202,716	\$ -0-	\$ 202,716
Contributions	455,998	100,160	556,158
In-kind contributions	6,395	-0-	6,395
Retreats and tuition	139,484	-0-	139,484
Merchandise	47,500	-0-	47,500
Electronic media income	36,062	-0-	36,062
Miscellaneous	8,194	-0-	8,194
Special events	85,939	-0-	85,939
Net assets released from restrictions:			
Restrictions satisfied by payments	<u>45,779</u>	<u>(45,779)</u>	<u>-0-</u>
Total revenue and other support	<u>1,028,067</u>	<u>54,381</u>	<u>1,082,448</u>
EXPENSES:			
Cost of goods sold	31,841	-0-	31,841
Program services:			
National	722,343	-0-	722,343
Retreats	21,118	-0-	21,118
Bookstore	15,422	-0-	15,422
Supporting services:			
Administrative	152,453	-0-	152,453
Fundraising	<u>76,220</u>	<u>-0-</u>	<u>76,220</u>
Total expenses	<u>1,019,397</u>	<u>-0-</u>	<u>1,019,397</u>
CHANGE IN NET ASSETS FROM OPERATIONS	8,670	54,381	63,051
NON-OPERATING INCOME (EXPENSE):			
Gain (loss) on investments – unrealized	<u>(2,037)</u>	<u>-0-</u>	<u>(2,037)</u>
Total non-operating income (expense)	<u>(2,037)</u>	<u>-0-</u>	<u>(2,037)</u>
CHANGE IN NET ASSETS	6,633	54,381	61,014
NET ASSETS AT BEGINNING OF YEAR	<u>967,165</u>	<u>68,727</u>	<u>1,035,892</u>
NET ASSETS AT END OF YEAR	<u>\$ 973,798</u>	<u>\$ 123,108</u>	<u>\$1,096,906</u>

See accompanying notes to financial statements.

2013		
<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
\$ 234,148	\$ -0-	\$ 234,148
543,880	40,156	584,036
6,395	-0-	6,395
41,595	-0-	41,595
50,225	-0-	50,225
36,283	-0-	36,283
3,277	-0-	3,277
428	-0-	428
<u>20,692</u>	<u>(20,692)</u>	<u>-0-</u>
<u>936,923</u>	<u>19,464</u>	<u>956,387</u>
29,398	-0-	29,398
715,981	-0-	715,981
28,746	-0-	28,746
14,860	-0-	14,860
157,767	-0-	157,767
<u>17,625</u>	<u>-0-</u>	<u>17,625</u>
<u>964,377</u>	<u>-0-</u>	<u>964,377</u>
(27,454)	19,464	(7,990)
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
<u>(27,454)</u>	<u>19,464</u>	<u>(7,990)</u>
<u>994,619</u>	<u>49,263</u>	<u>1,043,882</u>
\$ <u>967,165</u>	\$ <u>68,727</u>	\$ <u>1,035,892</u>

JEWEL HEART CORP.  
STATEMENTS OF CASH FLOWS  
Years Ended December 31, 2014 (Audited) and 2013 (Unaudited)

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 61,014	(\$ 7,990)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	66,444	67,102
Changes in operating assets and liabilities:		
Accounts receivable	2,093	(3,106)
Inventory	(6,675)	6,237
Deposits	29,922	-0-
Accounts payable	(43,374)	(33,454)
Customer deposits	(1,000)	200
Accrued liabilities and deferred revenue	<u>22,402</u>	<u>(1,290)</u>
Net cash provided by operating activities	<u>130,826</u>	<u>27,699</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(5,060)	(4,379)
Purchase of investments	<u>(5,251)</u>	<u>-0-</u>
Net cash (used) in investing activities	<u>(10,311)</u>	<u>(4,379)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on capital leases	-0-	(289)
Principal payments on long-term debt	<u>(40,108)</u>	<u>(41,000)</u>
Net cash (used) in financing activities	<u>(40,108)</u>	<u>(41,289)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	80,407	(17,969)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>170,022</u>	<u>187,991</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 250,429</u>	<u>\$ 170,022</u>

See accompanying notes to financial statements.

JEWEL HEART CORP.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 (Audited) and 2013 (Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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 its 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.

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

The Organization 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.

JEWEL HEART CORP.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 (Audited) and 2013 (Unaudited)

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

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

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.

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.

JEWEL HEART CORP.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 (Audited) and 2013 (Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Revenue

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

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.

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

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.

Income Taxes

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

Professional standards require an analysis of uncertain tax positions for the purpose of determining whether benefits associated with those positions may be recognized for financial statement purposes. Based on this analysis, the Organization has determined it has no material uncertain tax positions for which the associated benefits may not be recognized nor for which disclosure is required.

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, 2014 (Audited) and 2013 (Unaudited)

1. SUMMARY OF 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, 2014 and 2013 were \$96 and \$2,162, respectively.

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.

Date of Management's Review

Subsequent events have been evaluated through July 2, 2015, which is the date the financial statements were available to be issued. No subsequent events were noted by the Organization.

2. LEASES

Operating Leases

The Organization 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 \$71,325 and \$68,969 for the years ended December 31, 2014 and 2013, respectively. Of this, \$39,350 and \$37,117 was paid to a Board Member for an apartment lease. As of December 31, 2014, 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>2014</u>	<u>2013</u>
Note payable for building – Old National Bank. Secured by real property, monthly payments of \$6,825, including interest at 5.00%.	\$ 809,201	\$ 849,309
Less: current portion	<u>42,308</u>	<u>40,249</u>
Long-term debt net of current portion	<u>\$ 766,893</u>	<u>\$ 809,060</u>

JEWEL HEART CORP.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 (Audited) and 2013 (Unaudited)

3. NOTES PAYABLE (Continued)

Maturities of long-term debt of each of the years succeeding December 31, 2014, are as follows:

<u>YEARS</u>	<u>PRINCIPAL MATURITY</u>
2015	\$ 42,308
2016	44,473
2017	<u>722,420</u>
	<u>\$ 809,201</u>

4. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</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	101,046	20,055
Pilgrimage	13,446	40,156
Locho Rimpoche	<u>100</u>	<u>-0-</u>
	<u>\$ 123,108</u>	<u>\$ 68,727</u>

5. CASH FLOWS STATEMENT

	<u>2014</u>	<u>2013</u>
Cash paid during the year for:		
Interest	<u>\$ 41,789</u>	<u>\$ 40,943</u>

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, 2014 and 2013, was \$6,628 and \$7,824, respectively.

JEWEL HEART CORP.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014 (Audited) and 2013 (Unaudited)

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to determine the fair value of each class 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 based upon quoted market prices. .

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

The values of the Organization's financial instruments at December 31, 2014 and 2013 are as follows:

December 31, 2014

	<u>Carrying Value</u>	<u>Fair Value</u>
<u>Financial assets:</u>		
Cash and cash equivalents	\$ 250,429	\$ 250,429
Investments	5,251	5,251
<u>Financial liabilities:</u>		
Bank loans payable	\$ 809,201	\$ 809,201

December 31, 2013

	<u>Carrying Value</u>	<u>Fair Value</u>
<u>Financial assets:</u>		
Cash and cash equivalents	\$ 170,022	\$ 170,022
Investments	-0-	-0-
<u>Financial liabilities:</u>		
Bank loan payable	\$ 849,309	\$ 849,309