

JEWEL HEART CORP.
FINANCIAL STATEMENTS
Years Ended December 31, 2016 and 2015

C O N T E N T S

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

CERTIFIED PUBLIC ACCOUNTANTS

415 South Jackson • Jackson, Michigan 49201
Phone (517) 796-8880 • Fax (517) 796-8777

MEMBERS:

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of Jewel Heart Corp.
Ann Arbor, Michigan

We have audited the accompanying financial statements of Jewel Heart Corp. (a nonprofit organization) which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and cash flows for the years 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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

Jackson, Michigan

May 31, 2017

JEWEL HEART CORP.
STATEMENTS OF FINANCIAL POSITION
December 31, 2016 and 2015

| | <u>ASSETS</u> | |
|--|--------------------|--------------------|
| | <u>2016</u> | <u>2015</u> |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 519,868 | \$ 522,357 |
| Accounts receivable, net of allowance for doubtful accounts of \$-0- in 2016 & 2015 | 3,600 | 2,900 |
| Inventory | 43,966 | 44,328 |
| Prepaid expenses | 1,350 | -0- |
| Deposits | <u>6,385</u> | <u>6,159</u> |
| Total current assets | <u>575,169</u> | <u>575,744</u> |
| PROPERTY AND EQUIPMENT: | | |
| Land | 175,000 | 175,000 |
| Building and improvements | 1,766,090 | 1,766,090 |
| Equipment | 93,990 | 93,440 |
| Religious articles | 17,479 | 17,479 |
| Furniture and fixtures | <u>119,350</u> | <u>117,892</u> |
| | 2,171,909 | 2,169,901 |
| Less: accumulated depreciation | <u>(641,748)</u> | <u>(584,840)</u> |
| Total property and equipment | <u>1,530,161</u> | <u>1,585,061</u> |
| Total assets | <u>\$2,105,330</u> | <u>\$2,160,805</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| CURRENT LIABILITIES: | | |
| Current portion of long-term debt | \$ 728,649 | \$ 46,174 |
| Accounts payable | 10,338 | 14,135 |
| Customer deposits | 1,021 | 845 |
| Deferred revenue | 27,000 | 25,400 |
| Accrued liabilities | <u>6,695</u> | <u>4,311</u> |
| Total current liabilities | <u>773,703</u> | <u>90,865</u> |
| LONG-TERM DEBT (net of current portion) | <u>322</u> | <u>727,060</u> |
| NET ASSETS: | | |
| Unrestricted | 1,008,916 | 949,750 |
| Temporarily restricted | <u>322,389</u> | <u>393,130</u> |
| Total net assets | <u>1,331,305</u> | <u>1,342,880</u> |
| Total liabilities and net assets | <u>\$2,105,330</u> | <u>\$2,160,805</u> |

See accompanying notes to the financial statements.

JEWEL HEART CORP.
STATEMENTS OF ACTIVITIES
Years Ended December 31, 2016 and 2015

| | 2016 | | |
|---|---------------------|---------------------------|---------------------|
| | UNRESTRICTED | TEMPORARILY RESTRICTED | TOTAL |
| OPERATING ACTIVITIES | | | |
| REVENUE AND OTHER SUPPORT: | | | |
| General undesignated offerings | \$ 219,638 | \$ -0- | \$ 219,638 |
| Contributions | 532,012 | -0- | 532,012 |
| Retreats and tuition | 195,599 | -0- | 195,599 |
| Merchandise | 49,462 | -0- | 49,462 |
| Electronic media income | 30,547 | -0- | 30,547 |
| Miscellaneous | 449 | -0- | 449 |
| Special events | 9,937 | -0- | 9,937 |
| Net assets released from restrictions: | | | |
| Restrictions satisfied by payments | <u>70,741</u> | <u>(70,741)</u> | <u>-0-</u> |
| Total revenue and other support | <u>1,108,385</u> | <u>(70,741)</u> | <u>1,037,644</u> |
| EXPENSES: | | | |
| Cost of goods sold | 28,890 | -0- | 28,890 |
| Program services: | | | |
| National | 777,638 | -0- | 777,638 |
| Retreats | 22,991 | -0- | 22,991 |
| Bookstore | 16,449 | -0- | 16,449 |
| Supporting services: | | | |
| Administrative | 144,878 | -0- | 144,878 |
| Fundraising | <u>58,488</u> | <u>-0-</u> | <u>58,488</u> |
| Total expenses | <u>1,049,334</u> | <u>-0-</u> | <u>1,049,334</u> |
| CHANGE IN NET ASSETS FROM OPERATIONS | 59,051 | (70,741) | (11,690) |
| NON-OPERATING INCOME (EXPENSE): | | | |
| Interest income | 115 | -0- | 115 |
| Gain (loss) on investments | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> |
| Total non-operating income (expense) | <u>115</u> | <u>-0-</u> | <u>115</u> |
| CHANGE IN NET ASSETS | 59,166 | (70,741) | (11,575) |
| NET ASSETS AT BEGINNING OF YEAR | <u>949,750</u> | <u>393,130</u> | <u>1,342,880</u> |
| NET ASSETS AT END OF YEAR | <u>\$ 1,008,916</u> | <u>\$ 322,389</u> | <u>\$ 1,331,305</u> |

See accompanying notes to the financial statements.

2015

| <u>UNRESTRICTED</u> | <u>TEMPORARILY RESTRICTED</u> | <u>TOTAL</u> |
|---------------------|-----------------------------------|--------------------|
| \$ 223,172 | \$ -0- | \$ 223,172 |
| 400,233 | 310,291 | 710,524 |
| 198,682 | -0- | 198,682 |
| 68,000 | -0- | 68,000 |
| 32,219 | -0- | 32,219 |
| 1,510 | -0- | 1,510 |
| 200 | -0- | 200 |
| <u>40,269</u> | <u>(40,269)</u> | <u>-0-</u> |
| <u>964,285</u> | <u>270,022</u> | <u>1,234,307</u> |
| 44,544 | -0- | 44,544 |
| 721,303 | -0- | 721,303 |
| 40,405 | -0- | 40,405 |
| 16,554 | -0- | 16,554 |
| 149,292 | -0- | 149,292 |
| <u>15,801</u> | <u>-0-</u> | <u>15,801</u> |
| <u>987,899</u> | <u>-0-</u> | <u>987,899</u> |
| (23,614) | 270,022 | 246,408 |
| 5 | -0- | 5 |
| <u>(439)</u> | <u>-0-</u> | <u>(439)</u> |
| <u>(434)</u> | <u>-0-</u> | <u>(434)</u> |
| <u>(24,048)</u> | <u>270,022</u> | <u>245,974</u> |
| <u>973,798</u> | <u>123,108</u> | <u>1,096,906</u> |
| <u>\$ 949,750</u> | <u>\$ 393,130</u> | <u>\$1,342,880</u> |

JEWEL HEART CORP.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|---|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | \$ (11,575) | \$ 245,974 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 56,909 | 59,930 |
| Loss on sale of investments | -0- | 439 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (700) | (1,887) |
| Inventory | 362 | (2,135) |
| Deposits and prepaid expenses | (1,577) | (1,000) |
| Accounts payable | (3,797) | 12,822 |
| Customer deposits | 176 | 225 |
| Accrued liabilities and deferred revenue | <u>3,984</u> | <u>(3,393)</u> |
| Net cash provided by operating activities | <u>43,782</u> | <u>310,429</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of property and equipment | (2,008) | (2,088) |
| Proceeds from sale of investments | <u>-0-</u> | <u>4,812</u> |
| Net cash provided by (used in) investing activities | <u>(2,008)</u> | <u>2,724</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Principal payments on long-term debt | <u>(44,263)</u> | <u>(41,225)</u> |
| Net cash used in financing activities | <u>(44,263)</u> | <u>(41,225)</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | (2,489) | 271,928 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | <u>522,357</u> | <u>250,429</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u>\$ 519,868</u> | <u>\$ 522,357</u> |

See accompanying notes to the financial statements.

JEWEL HEART CORP.
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Jewel Heart Corp. is a religious organization dedicated to supporting the Buddhist community and others in their spiritual development through teaching conferences, seminars and ceremonies, and through the sale of religious books and merchandise. The national office is located in Ann Arbor, Michigan and local chapters are maintained in Cleveland, Ohio; New York, New York; Chicago, Illinois; and Lincoln, Nebraska. Jewel Heart Corp. is supported primarily through contributions from its members.

Cash and Cash Equivalents

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

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

The Organization capitalizes property and equipment over \$500. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions 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 assets are placed in service. Depreciation of property and equipment is provided using the straight-line method over estimated useful lives ranging from three to thirty-nine years.

Contributed Services

No amounts have been reflected in the financial statements for donated services. The Organization generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Organization in carrying out its teachings, but these services do not meet the criteria for recognition as contributed services.

JEWEL HEART CORP.
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence or nature of any donor restrictions.

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.

Deferred Revenue

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

Income Taxes

The Organization is a not-for-profit organization that is exempt from 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.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Fair Value of Financial Instruments

The Organization's financial instruments are cash, accounts receivable, accounts payable, and loans payable. The recorded value of cash, accounts receivable, accounts payable, and loans payable approximate fair values based on their short-term nature.

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, 2016 and 2015

1. SUMMARY OF 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.

Advertising Costs

The Organization uses advertising to promote its programs. The production costs of advertising are expensed as incurred. Advertising costs for the years ended December 31, 2016 and 2015 were \$8,304 and \$3,000, respectively.

2. CASH FLOWS STATEMENT

| | <u>2016</u> | <u>2015</u> |
|--------------------------------|------------------|------------------|
| Cash paid during the year for: | | |
| Interest | \$ <u>39,660</u> | \$ <u>42,631</u> |

3. 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 contribution of up to three percent (3%) of full-time employees' salary. Total cost for the years ended December 31, 2016 and 2015, was \$7,680 and \$7,191, respectively.

4. CONCENTRATIONS OF CREDIT RISK

The Organization maintains its cash and cash equivalent balances in various financial institutions. The Organization monitors the financial stability of financial institutions regularly and does not believe there is a significant credit risk associated with deposits in excess of federally insured amounts.

5. 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 \$76,339 and \$70,728 for the years ended December 31, 2016 and 2015, respectively. Of this, \$27,817 and \$24,240 was paid to a Board Member for an apartment lease. As of December 31, 2016, the Organization did not have any operating leases with initial or remaining non-cancelable lease terms in excess of one year.

JEWEL HEART CORP.
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

6. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31, 2016 and 2015:

| | <u>2016</u> | <u>2015</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 | 23,534 | 60,777 |
| Pilgrimage | 26,884 | 19,419 |
| Demo Rimpoche education fund | 2,715 | -0- |
| Locho Rimpoche | 100 | 100 |
| New York operations | <u>260,640</u> | <u>304,318</u> |
| | <u>\$ 322,389</u> | <u>\$ 393,130</u> |

7. NOTES PAYABLE

| | <u>2016</u> | <u>2015</u> |
|---|----------------|-------------------|
| Note payable for building – Old National Bank. Secured by real property, monthly payments of \$6,825, including interest at 5%. | \$ 726,776 | \$ 769,013 |
| Note payable for equipment – Ascentium Capital. Secured by equipment, monthly payments of \$169, including interest at 9.67%. | <u>2,195</u> | <u>4,221</u> |
| | 728,971 | 773,234 |
| Less: current portion | <u>728,649</u> | <u>46,174</u> |
| Long-term debt net of current portion | <u>\$ 322</u> | <u>\$ 727,060</u> |

Maturities of long-term debt of each of the years succeeding December 31, 2016, are as follows:

| <u>YEARS</u> | <u>PRINCIPAL MATURITY</u> |
|--------------|---------------------------|
| 2017 | 728,649 |
| 2018 | <u>322</u> |
| | <u>\$ 728,971</u> |

8. SUBSEQUENT EVENTS

Subsequent events have been evaluated through May 31, 2017, which is the date the financial statements were available to be issued.