

JEWEL HEART CORP.

FINANCIAL STATEMENTS

Years Ended December 31, 2017 and 2016

CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS:	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4
Notes to Financial Statements	5 - 8

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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, 2017 and 2016, 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, 2017 and 2016, 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 16, 2018

JEWEL HEART CORP.
STATEMENTS OF FINANCIAL POSITION
December 31, 2017 and 2016

	<u>ASSETS</u>	<u>2017</u>	<u>2016</u>
CURRENT ASSETS:			
Cash and cash equivalents		\$ 584,384	\$ 519,868
Accounts receivable, net of allowance for doubtful accounts of \$-0- in 2017 & 2016		-0-	3,600
Inventory		46,346	43,966
Prepaid expenses		-0-	1,350
Deposits		<u>6,385</u>	<u>6,385</u>
Total current assets		<u>637,115</u>	<u>575,169</u>
PROPERTY AND EQUIPMENT:			
Land		175,000	175,000
Building and improvements		1,766,090	1,766,090
Equipment		95,091	93,990
Religious articles		17,479	17,479
Furniture and fixtures		<u>120,450</u>	<u>119,350</u>
		2,174,110	2,171,909
Less: accumulated depreciation		<u>(697,169)</u>	<u>(641,748)</u>
Total property and equipment		<u>1,476,941</u>	<u>1,530,161</u>
 Total assets		 <u>\$2,114,056</u>	 <u>\$2,105,330</u>
 <u>LIABILITIES AND NET ASSETS</u>			
CURRENT LIABILITIES:			
Current portion of long-term debt		\$ 35,534	\$ 728,649
Accounts payable		7,262	10,338
Customer deposits		1,021	1,021
Deferred revenue		18,950	27,000
Accrued liabilities		<u>3,976</u>	<u>6,695</u>
Total current liabilities		<u>66,743</u>	<u>773,703</u>
 LONG-TERM DEBT (net of current portion)		 <u>728,013</u>	 <u>322</u>
NET ASSETS:			
Unrestricted		966,337	1,008,916
Temporarily restricted		<u>352,963</u>	<u>322,389</u>
Total net assets		<u>1,319,300</u>	<u>1,331,305</u>
 Total liabilities and net assets		 <u>\$2,114,056</u>	 <u>\$2,105,330</u>

See accompanying notes to the financial statements.

JEWEL HEART CORP.
STATEMENTS OF ACTIVITIES
Years Ended December 31, 2017 and 2016

	2017		
	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
OPERATING ACTIVITIES			
REVENUE AND OTHER SUPPORT:			
General undesignated offerings	\$ 207,898	\$ -0-	\$ 207,898
Contributions	372,389	77,034	449,423
Retreats and tuition	252,587	-0-	252,587
Merchandise	44,686	-0-	44,686
Electronic media income	28,616	-0-	28,616
Miscellaneous	1,901	-0-	1,901
Special events	315	-0-	315
Net assets released from restrictions:			
Restrictions satisfied by payments	<u>47,778</u>	<u>(47,778)</u>	<u>-0-</u>
Total revenue and other support	<u>956,170</u>	<u>29,256</u>	<u>985,426</u>
EXPENSES:			
Cost of goods sold	29,878	-0-	29,878
Program services:			
National	759,339	-0-	759,339
Retreats	24,209	-0-	24,209
Bookstore	17,007	-0-	17,007
Supporting services:			
Administrative	149,520	-0-	149,520
Fundraising	<u>18,796</u>	<u>-0-</u>	<u>18,796</u>
Total expenses	<u>998,749</u>	<u>-0-</u>	<u>998,749</u>
CHANGE IN NET ASSETS FROM OPERATIONS	(42,579)	29,256	(13,323)
NON-OPERATING INCOME:			
Interest income	<u>-0-</u>	<u>1,318</u>	<u>1,318</u>
Total non-operating income	<u>-0-</u>	<u>1,318</u>	<u>1,318</u>
CHANGE IN NET ASSETS	(42,579)	30,574	(12,005)
NET ASSETS AT BEGINNING OF YEAR	<u>1,008,916</u>	<u>322,389</u>	<u>1,331,305</u>
NET ASSETS AT END OF YEAR	<u>\$ 966,337</u>	<u>\$ 352,963</u>	<u>\$1,319,300</u>

See accompanying notes to the financial statements.

2016

<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
\$ 219,638	\$ -0-	\$ 219,638
532,012	-0-	532,012
195,599	-0-	195,599
49,462	-0-	49,462
30,547	-0-	30,547
449	-0-	449
9,937	-0-	9,937
<u>70,741</u>	<u>(70,741)</u>	<u>-0-</u>
<u>1,108,385</u>	<u>(70,741)</u>	<u>1,037,644</u>
28,890	-0-	28,890
777,638	-0-	777,638
22,991	-0-	22,991
16,449	-0-	16,449
144,878	-0-	144,878
<u>58,488</u>	<u>-0-</u>	<u>58,488</u>
<u>1,049,334</u>	<u>-0-</u>	<u>1,049,334</u>
59,051	(70,741)	(11,690)
<u>115</u>	<u>-0-</u>	<u>115</u>
<u>115</u>	<u>-0-</u>	<u>115</u>
<u>59,166</u>	<u>(70,741)</u>	<u>(11,575)</u>
<u>949,750</u>	<u>393,130</u>	<u>1,342,880</u>
\$ <u>1,008,916</u>	\$ <u>322,389</u>	\$ <u>1,331,305</u>

JEWEL HEART CORP.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (12,005)	\$ (11,575)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	55,421	56,909
Changes in operating assets and liabilities:		
Accounts receivable	3,600	(700)
Inventory	(2,380)	362
Deposits and prepaid expenses	1,350	(1,577)
Accounts payable	(3,076)	(3,797)
Customer deposits	-0-	176
Accrued liabilities and deferred revenue	<u>(10,769)</u>	<u>3,984</u>
Net cash provided by operating activities	<u>32,141</u>	<u>43,782</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	<u>(2,201)</u>	<u>(2,008)</u>
Net cash used in investing activities	<u>(2,201)</u>	<u>(2,008)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt	75,000	-0-
Principal payments on long-term debt	<u>(40,424)</u>	<u>(44,263)</u>
Net cash provided by (used in) financing activities	<u>34,576</u>	<u>(44,263)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	64,516	(2,489)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>519,868</u>	<u>522,357</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 584,384</u>	<u>\$ 519,868</u>

See accompanying notes to the financial statements.

JEWEL HEART CORP.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

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.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis.

Basis of Presentation

The Organization 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.

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.

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.

JEWEL HEART CORP.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Inventory

Inventory consists of books, statues and items for sale in the bookstore. Inventory is stated at the lower of cost or net realizable value. Cost is determined by the first-in, first-out method. When evidence exists that the net realizable value of inventory is lower than its cost, the difference is recognized as a loss in the statement of activities in the period in which it occurs.

Contributions

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

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.

Deferred Revenue

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

JEWEL HEART CORP.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2017 and 2016 were \$21,286 and \$8,304, respectively.

2. CASH FLOWS STATEMENT

Cash paid for interest during 2017 and 2016 was \$38,235 and \$39,660, respectively.

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, 2017 and 2016, was \$6,190 and \$7,680, 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 \$40,952 and \$76,339 for the years ended December 31, 2017 and 2016, respectively. Of this, \$28,652 and \$27,817 was paid to a Board Member for an apartment lease. As of December 31, 2017 and 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, 2017 and 2016

6. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Capital Improvements - Kitchen and Bathroom	\$ 78,540	\$ 3,437
H.H. Dalai Lama	-0-	4,128
Transcript project	-0-	951
Compassionate care fund	1,930	-0-
Dharma distribution project	10,534	23,534
Pilgrimage	-0-	26,884
Demo Rimpoche education fund	-0-	2,715
Locho Rimpoche	-0-	100
New York operations	<u>261,959</u>	<u>260,640</u>
	<u>\$ 352,963</u>	<u>\$ 322,389</u>

7. NOTES PAYABLE

	<u>2017</u>	<u>2016</u>
Note payable for building – Old National Bank Secured by real property, renewed October 2017 with Monthly payments of \$6,194, including interest at 5.22%, Prior payments of \$6,825 including interest at 5%.	\$ 763,378	\$ 726,776
 Note payable for equipment – Ascentium Capital. Secured by equipment, monthly Payments of \$169, including interest at 9.67%.	<u>169</u>	<u>2,195</u>
	763,547	728,971
Less: current portion	<u>35,534</u>	<u>728,649</u>
Long-term debt net of current portion	<u>\$ 728,013</u>	<u>\$ 322</u>

Maturities of long-term debt at December 31, 2017, are as follows:

<u>YEARS</u>	<u>PRINCIPAL MATURITY</u>
2018	35,534
2019	37,256
2020	39,248
2021	41,346
2022	43,557
Thereafter	<u>566,606</u>
	<u>\$ 763,547</u>

8. SUBSEQUENT EVENTS

Subsequent events have been evaluated through May 16, 2018, which is the date the financial statements were available to be issued.