

JEWEL HEART CORP.
FINANCIAL STATEMENTS
Years Ended December 31, 2018 and 2017

C O N T E N T S

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS:	
Statements of Financial Position	2
Statements of Activities	3
Statements of Functional Expenses	4
Statements of Cash Flows	5
Notes to Financial Statements	6 - 10

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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, 2018 and 2017, and the related statements of activities, functional expenses, 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, 2018 and 2017, 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.

Boswell, Schultz, Sonnenberg & Arnett, P.L.C.

Jackson, Michigan
May 8, 2019

JEWEL HEART CORP.
STATEMENTS OF FINANCIAL POSITION
December 31, 2018 and 2017

ASSETS		
	<u>2018</u>	<u>2017</u>
Current assets		
Cash and cash equivalents	\$ 549,262	\$ 584,384
Inventory	45,354	46,346
Deposits	6,385	6,385
Total current assets	601,001	637,115
 Property and equipment		
Land	175,000	175,000
Buildings and improvements	1,852,211	1,766,090
Equipment	97,463	95,091
Religious articles	17,479	17,479
Furniture and fixtures	120,450	120,450
	2,262,603	2,174,110
Less: accumulated depreciation	(749,143)	(697,169)
Net property and equipment	1,513,460	1,476,941
 Total assets	 \$ 2,114,461	 \$ 2,114,056
LIABILITIES AND NET ASSETS		
Current liabilities		
Current portion of long-term debt	\$ 37,256	\$ 35,534
Accounts payable	14,276	7,262
Customer deposits	1,691	1,021
Deferred revenue	5,550	18,950
Accrued liabilities	4,319	3,976
Total current liabilities	63,092	66,743
 Long-term debt (net of current portion)	 692,929	 728,013
 Net Assets		
Without donor restrictions	1,079,878	966,337
With donor restrictions	278,562	352,963
Total net assets	1,358,440	1,319,300
 Total liabilities and net assets	 \$ 2,114,461	 \$ 2,114,056

See accompanying notes to financial statements.

JEWEL HEART CORP.
STATEMENTS OF ACTIVITIES
Years ended December 31, 2018 and 2017

	2018			2017		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Operating activities						
Revenue and other support						
General membership offerings	\$ 195,954	-	\$ 195,954	\$ 207,898	-	\$ 207,898
Contributions	594,812	5,275	600,087	372,389	77,034	449,423
Retreats and tuition	160,195	-	160,195	252,587	-	252,587
Merchandise	34,758	-	34,758	44,686	-	44,686
Electronic media income	25,807	-	25,807	28,616	-	28,616
Miscellaneous	1,000	-	1,000	1,901	-	1,901
Special events	-	-	-	315	-	315
Interest income	-	3,864	3,864	-	1,318	1,318
Net assets released from restrictions						
Satisfaction of purpose restrictions	83,540	(83,540)	-	47,778	(47,778)	-
Total revenue and other support	1,096,066	(74,401)	1,021,665	956,170	30,574	986,744
Expenses						
Cost of goods sold	16,087	-	16,087	29,878	-	29,878
Program Services						
National	793,871	-	793,871	759,339	-	759,339
Retreats	15,265	-	15,265	24,209	-	24,209
Bookstore	18,029	-	18,029	17,007	-	17,007
Supporting services						
Administrative	124,446	-	124,446	149,520	-	149,520
Fundraising	14,827	-	14,827	18,796	-	18,796
Total expenses	982,525	-	982,525	998,749	-	998,749
Change in net assets	113,541	(74,401)	39,140	(42,579)	30,574	(12,005)
Net assets beginning of year	966,337	352,963	1,319,300	1,008,916	322,389	1,331,305
Net assets end of year	\$ 1,079,878	\$ 278,562	\$ 1,358,440	\$ 966,337	\$ 352,963	\$ 1,319,300

See accompanying notes to financial statements.

JEWEL HEART CORP.
STATEMENTS OF FUNCTIONAL EXPENSES
Year Ended December 31, 2018, with Comparative Totals for 2017

	2018					Total 2018	Total 2017
	Program Services			Support Services			
	National	Retreats	Store	Management and General	Fund- raising		
Wages and related expenses:							
Wages	\$ 150,279	\$ 8,374	\$ 10,280	\$ 27,928	\$ 7,672	\$ 204,533	\$ 210,250
Payroll taxes and employee benefits	60,396	3,264	4,080	11,429	2,448	81,617	93,080
Total wages and related expenses	210,675	11,638	14,360	39,357	10,120	286,150	303,330
Other expenses:							
Cost of goods sold	-	-	16,087	-	-	16,087	29,878
Cost of retreats	-	3,627	-	-	-	3,627	6,849
Office supplies	-	-	523	4,007	-	4,530	5,975
Operating supplies	2,376	-	-	-	-	2,376	4,300
Program expenses	180,786	-	-	-	-	180,786	178,325
Pilgrimage	41,702	-	-	-	-	41,702	23,880
Puja	20,300	-	-	-	-	20,300	32,265
Rinpoche education	9,000	-	-	-	-	9,000	11,500
Webcast	10,524	-	260	729	-	11,513	13,195
Duplication	-	-	-	3,319	2,707	6,026	6,074
Postage and shipping	-	-	-	516	2,000	2,516	3,988
Insurance	11,204	-	-	4,802	-	16,006	17,487
Telephone	7,436	-	-	3,297	-	10,733	13,096
Utilities	9,901	-	-	4,243	-	14,144	13,318
Maintenance	8,958	-	-	8,958	-	17,916	19,719
Professional fees	-	-	-	19,185	-	19,185	20,065
Contracted services	185,432	-	-	4,467	-	189,899	153,375
Advertising	18,489	-	-	-	-	18,489	21,286
Depreciation	47,346	-	2,886	1,742	-	51,974	55,421
Travel	186	-	-	-	-	186	8,643
Interest	28,797	-	-	12,341	-	41,138	38,235
Fees	759	-	-	17,483	-	18,242	18,545
Total other expenses	\$ 583,196	\$ 3,627	\$ 19,756	\$ 85,089	\$ 4,707	\$ 696,375	\$ 695,419
Total expenses	\$ 793,871	\$ 15,265	\$ 34,116	\$ 124,446	\$ 14,827	\$ 982,525	\$ 998,749

See accompanying notes to financial statements.

JEWEL HEART CORP.
STATEMENTS OF CASH FLOWS
Years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Change in net assets	\$ 39,140	\$ (12,005)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	51,974	55,421
Changes in operating assets and liabilities:		
Accounts receivable	-	3,600
Inventory	992	(2,380)
Deposits and prepaid expenses	-	1,350
Accounts payable	7,014	(3,076)
Accrued liabilities and deferred revenue	(12,387)	(10,769)
Net cash provided by operating activities	<u>86,733</u>	<u>32,141</u>
Cash flows from investing activities		
Purchase of fixed assets	<u>(88,493)</u>	<u>(2,201)</u>
Net cash (used) by investing activities	<u>(88,493)</u>	<u>(2,201)</u>
Cash flows from financing activities		
Proceeds from long-term debt	-	75,000
Principal payments on long-term debt	<u>(33,362)</u>	<u>(40,424)</u>
Net cash provided (used) by financing activities	<u>(33,362)</u>	<u>34,576</u>
Net increase (decrease) in cash and cash equivalents	(35,122)	64,516
Cash and cash equivalents, beginning of year	<u>584,384</u>	<u>519,868</u>
Cash and cash equivalents, end of year	<u><u>\$ 549,262</u></u>	<u><u>\$ 584,384</u></u>

See accompanying notes to financial statements.

JEWEL HEART CORP.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

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

Basis of Presentation

The Organization is required to report information regarding their financial position and activities according to two classes of net assets: unrestricted net assets and donor 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, 2018 and 2017

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. For the year ended December 31, 2018, additions to property and equipment included a parking lot and computer.

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 or donor restricted net assets, depending on the existence or nature of any donor restrictions.

All donor restricted contributions are reported as increases in donor restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), donor restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from 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.

JEWEL HEART CORP.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

Cost Allocation

The costs of providing the programs and other activities have been summarized on a functional basis in the Statement of Activities and the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Certain categories of expenses are attributable to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. Compensation and benefits are allocated on the basis of estimates of time and effort. Other shared expenses, such as occupancy costs and depreciation are allocated on a square footage basis.

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, 2018 and 2017 were \$18,489 and \$21,286, respectively.

Date of Management's Review

Subsequent events have been evaluated through May 8, 2019, which is the date the financial statements were available to be issued.

2. CASH FLOWS STATEMENT

Cash paid for interest during 2018 and 2017 was \$41,138 and \$38,235, respectively.

JEWEL HEART CORP.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

3. NOTES PAYABLE

	<u>2018</u>	<u>2017</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%.	\$ 730,185	\$ 763,378
 Note payable for equipment – Ascentium Capital. Secured by equipment, monthly Payments of \$169, including interest at 9.67%.	<u>-0-</u> 730,185	<u>169</u> 763,547
Less: current portion	<u>37,256</u>	<u>35,534</u>
Long-term debt net of current portion	\$ <u>692,929</u>	\$ <u>728,013</u>

Maturities of long-term debt at December 31, 2018, are as follows:

<u>YEARS</u>	<u>PRINCIPAL MATURITY</u>
2019	37,256
2020	39,248
2021	41,346
2022	43,557
2023	45,712
Thereafter	<u>523,066</u>
	<u>\$ 730,185</u>

4. 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 \$29,511 and \$40,952 for the years ended December 31, 2018 and 2017, respectively. Of this, \$29,511 and \$28,652 was paid to a Board Member for the lease of meeting space. As of December 31, 2018 and 2017, the Organization did not have any operating leases with initial or remaining non-cancelable lease terms in excess of one year.

5. RETIREMENT PLAN

The Organization has 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, 2018 and 2017, was \$4,835 and \$6,190, respectively.

JEWEL HEART CORP.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

6. 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.

7. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes:

	<u>2018</u>	<u>2017</u>
Subject to expenditures for specified purpose:		
Capital Improvements	\$ -0-	\$ 78,540
Compassionate care fund	2,204	1,930
Dharma distribution project	10,534	10,534
New York operations	<u>265,824</u>	<u>261,959</u>
	<u>\$ 278,562</u>	<u>\$ 352,963</u>

8. LIQUIDITY AND AVAILABILITY OF RESOURCES

Jewel Heart Corp. has \$549,262 of financial assets available within one year of the statement of financial position date to meet cash needs for general operating expenditures, consisting of cash in checking and savings of \$283,438 and cash in a money market account of \$265,824. For the 2019 year, the Organization plans to use these assets for operations and to continue to pay down the mortgage on the building. Donor-restricted amounts that are available for use within one year for general purposes include the money market account.

9. NEW ACCOUNTING PRONOUNCEMENT

On August 18, 2016 the FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*, effective for fiscal years beginning after December 15, 2017. Jewel Heart Corp. has adjusted the presentation of its financial statements accordingly, applying the changes retrospectively to the comparative period presented. The new standards change the following aspects of Jewel Heart Corp.'s financial statements:

- The temporarily restricted net asset class has been renamed *net assets with donor restrictions*.
- The unrestricted net asset class has been renamed *net assets without donor restrictions*.
- The financial statements include a new disclosure about liquidity and availability of resources (Note 8).

In addition, certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.