

**JEWEL HEART CORP.**

**FINANCIAL STATEMENTS**

**Years Ended December 31, 2015 and 2014**

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

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
of Jewel Heart Corp.

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, 2015 and 2014, 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, 2015 and 2014, 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.*

April 29, 2016

JEWEL HEART CORP.  
STATEMENTS OF FINANCIAL POSITION  
December 31, 2015 and 2014

	<u>ASSETS</u>	<u>2015</u>	<u>2014</u>
CURRENT ASSETS:			
Cash and cash equivalents		\$ 522,357	\$ 250,429
Accounts receivable, net of allowance for doubtful accounts of \$-0- in 2015 & 2014		2,900	1,013
Inventory		44,328	42,193
Investments		-0-	5,251
Deposits		<u>6,159</u>	<u>5,159</u>
Total current assets		<u>575,744</u>	<u>304,045</u>
PROPERTY AND EQUIPMENT:			
Land		175,000	175,000
Building and improvements		1,766,090	1,766,090
Equipment		93,440	91,352
Religious articles		17,479	17,479
Furniture and fixtures		<u>117,892</u>	<u>112,634</u>
		2,169,901	2,162,555
Less: accumulated depreciation		<u>(584,840)</u>	<u>(524,910)</u>
Total property and equipment		<u>1,585,061</u>	<u>1,637,645</u>
Total assets		<u>\$2,160,805</u>	<u>\$1,941,690</u>
	<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:			
Current portion of long-term debt		\$ 46,174	\$ 42,308
Accounts payable		14,135	1,313
Customer deposits		845	620
Deferred revenue		25,400	23,800
Accrued liabilities		<u>4,311</u>	<u>9,850</u>
Total current liabilities		<u>90,865</u>	<u>77,891</u>
LONG-TERM DEBT (net of current portion)		<u>727,060</u>	<u>766,893</u>
NET ASSETS:			
Unrestricted		949,750	973,798
Temporarily restricted		<u>393,130</u>	<u>123,108</u>
Total net assets		<u>1,342,880</u>	<u>1,096,906</u>
Total liabilities and net assets		<u>\$2,160,805</u>	<u>\$1,941,690</u>

See accompanying notes to the financial statements.

JEWEL HEART CORP.  
STATEMENTS OF ACTIVITIES  
Years Ended December 31, 2015 and 2014

		2015	
	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
OPERATING ACTIVITIES			
REVENUE AND OTHER SUPPORT:			
General undesignated offerings	\$ 223,172	\$ -0-	\$ 223,172
Contributions	400,233	310,291	710,524
In-kind contributions	-0-	-0-	-0-
Retreats and tuition	198,682	-0-	198,682
Merchandise	68,000	-0-	68,000
Electronic media income	32,219	-0-	32,219
Miscellaneous	1,510	-0-	1,510
Special events	200	-0-	200
Net assets released from restrictions:			
Restrictions satisfied by payments	<u>40,269</u>	<u>(40,269)</u>	<u>-0-</u>
Total revenue and other support	<u>964,285</u>	<u>270,022</u>	<u>1,234,307</u>
EXPENSES:			
Cost of goods sold	44,544	-0-	44,544
Program services:			
National	721,303	-0-	721,303
Retreats	40,405	-0-	40,405
Bookstore	16,554	-0-	16,554
Supporting services:			
Administrative	149,292	-0-	149,292
Fundraising	<u>15,801</u>	<u>-0-</u>	<u>15,801</u>
Total expenses	<u>987,899</u>	<u>-0-</u>	<u>987,899</u>
CHANGE IN NET ASSETS FROM OPERATIONS	(23,614)	270,022	246,408
NON-OPERATING INCOME (EXPENSE):			
Interest income	5	-0-	5
Gain (loss) on investments	<u>(439)</u>	<u>-0-</u>	<u>(439)</u>
Total non-operating income (expense)	<u>(434)</u>	<u>-0-</u>	<u>(434)</u>
CHANGE IN NET ASSETS	(24,048)	270,022	245,974
NET ASSETS AT BEGINNING OF YEAR	<u>973,798</u>	<u>123,108</u>	<u>1,096,906</u>
NET ASSETS AT END OF YEAR	<u>\$ 949,750</u>	<u>\$ 393,130</u>	<u>\$1,342,880</u>

See accompanying notes to the financial statements.



2014

<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
\$ 202,716	\$ -0-	\$ 202,716
455,998	100,160	556,158
6,395	-0-	6,395
139,484	-0-	139,484
47,500	-0-	47,500
36,062	-0-	36,062
8,194	-0-	8,194
85,939	-0-	85,939
<u>45,779</u>	<u>(45,779)</u>	<u>-0-</u>
<u>1,028,067</u>	<u>54,381</u>	<u>1,082,448</u>
31,841	-0-	31,841
722,343	-0-	722,343
21,118	-0-	21,118
15,422	-0-	15,422
152,453	-0-	152,453
<u>76,220</u>	<u>-0-</u>	<u>76,220</u>
<u>1,019,397</u>	<u>-0-</u>	<u>1,019,397</u>
8,670	54,381	63,051
-0-	-0-	-0-
<u>(2,037)</u>	<u>-0-</u>	<u>(2,037)</u>
<u>(2,037)</u>	<u>-0-</u>	<u>(2,307)</u>
<u>6,633</u>	<u>54,381</u>	<u>61,014</u>
<u>967,165</u>	<u>68,727</u>	<u>1,035,892</u>
\$ <u>973,798</u>	\$ <u>123,108</u>	\$ <u>1,096,906</u>

JEWEL HEART CORP.  
STATEMENTS OF CASH FLOWS  
Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 245,974	\$ 61,014
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	59,930	66,444
Loss on sale of investments	439	-0-
Changes in operating assets and liabilities:		
Accounts receivable	(1,887)	2,093
Inventory	(2,135)	(6,675)
Deposits	(1,000)	29,922
Accounts payable	12,822	(43,374)
Customer deposits	225	(1,000)
Accrued liabilities and deferred revenue	<u>(3,939)</u>	<u>22,402</u>
Net cash provided by operating activities	<u>310,429</u>	<u>130,826</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(2,088)	(5,060)
Proceeds from sale of investments	4,812	-0-
Purchase of investments	<u>-0-</u>	<u>(5,251)</u>
Net cash provided by (used in) investing activities	<u>2,724</u>	<u>(10,311)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt	<u>(41,225)</u>	<u>(40,108)</u>
Net cash used in financing activities	<u>(41,225)</u>	<u>(40,108)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	271,928	80,407
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>250,429</u>	<u>170,022</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ <u>522,357</u>	\$ <u>250,429</u>

See accompanying notes to the financial statements.

JEWEL HEART CORP.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015 and 2014

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.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported 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.

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.



JEWEL HEART CORP.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015 and 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

JEWEL HEART CORP.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015 and 2014

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.

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 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, 2015 and 2014 were \$3,000 and \$96, respectively.

Date of Management's Review

Subsequent events have been evaluated through April 29, 2016, which is the date the financial statements were available to be issued. No subsequent events were noted by the Organization.

2. CASH FLOWS STATEMENT

	<u>2015</u>	<u>2014</u>
Cash paid during the year for:		
Interest	\$ <u>42,631</u>	\$ <u>41,789</u>

The Organization had a non-cash investing activity during the year ended December 31, 2015 in the amount of \$5,258 for the purchase of equipment.

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, 2015 and 2014, was \$7,191 and \$6,628, respectively.

JEWEL HEART CORP.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015 and 2014

4. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</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	60,777	101,046
Pilgrimage	19,419	13,446
Locho Rimpoche	100	100
New York operations	<u>304,318</u>	<u>-0-</u>
	<u>\$ 393,130</u>	<u>\$ 123,108</u>

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 \$70,728 and \$71,325 for the years ended December 31, 2015 and 2014, respectively. Of this, \$24,240 and \$39,350 was paid to a Board Member for an apartment lease. As of December 31, 2015, the Organization did not have any operating leases with initial or remaining non-cancelable lease terms in excess of one year.

6. NOTES PAYABLE

	<u>2015</u>	<u>2014</u>
Note payable for building – Old National Bank. Secured by real property, monthly payments of \$6,825, including interest at 5%.	\$ 769,013	\$ 809,201
Note payable for equipment – Ascentium Capital. Secured by equipment, monthly payments of \$169, including interest at 9.67%.	<u>4,221</u>	<u>-0-</u>
	773,234	809,201
Less: current portion	<u>46,174</u>	<u>42,308</u>
Long-term debt net of current portion	<u>\$ 727,060</u>	<u>\$ 766,893</u>

Maturities of long-term debt of each of the years succeeding December 31, 2015, are as follows:

<u>YEARS</u>	<u>PRINCIPAL MATURITY</u>
2016	\$ 46,174
2017	726,413
2018	<u>647</u>
	<u>\$ 773,234</u>



JEWEL HEART CORP.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2015 and 2014

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of cash and cash equivalents, accounts receivable, accounts payable, and loans payable approximate fair values based on their short-term nature.

The framework for measuring fair value establishes a three-level hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of the fair value of an asset or liability as of the measurement date.

The three levels are defined as follows:

- Level 1    Represented by quoted prices that are available on an active market. Examples of Level 1 securities include highly liquid government bonds, treasury securities, mortgage products and exchange traded equities.
- Level 2    Represented by assets and liabilities similar to Level 1 where quoted prices are not available, but are observable, either directly or indirectly through corroboration with observable market data and estimated using pricing models or discounted cash flows. Examples of Level 2 securities include U.S. securities, mortgage-backed agency securities, obligations of states and political subdivisions, and certain corporate, asset backed securities, and swap agreements.
- Level 3    Represented by financial instruments where there is limited activity or unobservable market prices and pricing models significant to determining the fair value measurement to include the reporting entity's own assumptions about the market risk. Examples of Level 3 securities would include hedge funds, private equity securities and private investments in public entities.

Jewel Heart Corp. does not have any Level 2 or 3 investments. Fair values of assets measured on a recurring as of December 31, 2015 and 2014 are as follows:

<u>Description</u>	<u>Fair Value</u>	<u>December 31, 2015</u>	<u>December 31, 2014</u>	
		Quoted Prices in Active Markets for Identical Asset (Level 1)	<u>Fair Value</u>	Quoted Prices in Active Markets for Identical Asset (Level 1)
Unrestricted: Mutual Funds	\$ -0-	\$ -0-	\$ 5,251	\$ 5,251