

KARME CHOLING SHAMBHALA MEDITATION CENTER

AUDIT REPORT AND FINANCIAL STATEMENTS

DECEMBER 31, 2017

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FOTHERGILL SEGALE & VALLEY
Certified Public Accountants



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Karme Choling Shambhala Meditation Center
Barnet, Vermont

Report on the Financial Statements

We have audited the accompanying financial statements of Karme Choling Shambhala Meditation Center, a division of Shambhala, USA, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2017, and the related statements of activities, cash flows, and functional expenses 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 from 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 Karne Choling Shambhala Meditation Center, a division of Shambhala, USA, Inc. as of December 31, 2017, 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.

Respectfully submitted,

Fothergill Segale & Valley, CPAs

FOTHERGILL SEGALE & VALLEY, CPAs
Montpelier, Vermont
Vermont Public Accountancy License #110

December 7, 2018

KARME CHOLING SHAMBHALA MEDITATION CENTER
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017

EXHIBIT A

ASSETS

Current Assets	
Cash	\$ 112,358
Cash - restricted	304,969
Accounts receivable, net of allowance of \$10,615	44,886
Restricted promises to give - due in one year	142,234
Prepaid expenses	7,864
Inventory	8,995
Total current assets	621,306
Other assets	
Investments - designated	32,562
Restricted promises to give - due beyond one year	214,783
	247,345
Property and Equipment	
Land	299,887
Land improvements	252,667
Building and improvements	3,807,880
Equipment	557,931
Accumulated depreciation	(2,655,830)
Net property and equipment	2,262,535
Total assets	\$ 3,131,186

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts payable	\$ 46,459
Accrued payroll	20,614
Deferred program service revenue	143,783
Operating line of credit	68,922
Current portion of long-term debt	34,300
Total current liabilities	314,078
Long-term Liabilities	
Long-term debt	701,997
Less current portion	(34,300)
Total long-term liabilities	667,697
Total liabilities	981,775
Net Assets	
Unrestricted	1,487,425
Temporarily restricted	661,986
Total net assets	2,149,411
Total liabilities and net assets	\$ 3,131,186

See Notes to Financial Statements.

KARME CHOLING SHAMBHALA MEDITATION CENTER
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017

EXHIBIT B

	2017		
	Unrestricted	Temporarily Restricted	Total
Revenues and Other Support			
Program revenue, net of scholarships and discounts	\$1,119,540	\$ 0	\$1,119,540
Net commissary	15,049	0	15,049
Interest and finance charges	6,410	0	6,410
Donations	267,800	826,511	1,094,311
Gain (loss) on disposal of equipment	600	0	600
Other income	9,884	0	9,884
Total revenues and other support	<u>1,419,283</u>	<u>826,511</u>	<u>2,245,794</u>
Net assets released from restrictions	<u>252,110</u>	<u>(252,110)</u>	<u>0</u>
Total revenues, other support and reclassifications	<u>1,671,393</u>	<u>574,401</u>	<u>2,245,794</u>
Expenses			
Program Services	<u>1,470,386</u>	<u>0</u>	<u>1,470,386</u>
Supporting Services			
Fundraising	106,607	0	106,607
Management and general	135,308	0	135,308
Total supporting services	<u>241,915</u>	<u>0</u>	<u>241,915</u>
Total expenses	<u>1,712,301</u>	<u>0</u>	<u>1,712,301</u>
CHANGE IN NET ASSETS	(40,908)	574,401	533,493
NET ASSETS - JANUARY 1, 2017	<u>1,528,333</u>	<u>87,585</u>	<u>1,615,918</u>
NET ASSETS - DECEMBER 31, 2017	<u>\$1,487,425</u>	<u>\$ 661,986</u>	<u>\$2,149,411</u>

See Notes to Financial Statements.

KARME CHOLING SHAMBHALA MEDITATION CENTER
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2017

EXHIBIT C

	2017
CASH FLOWS FROM (TO) OPERATING ACTIVITIES:	
Change in net assets	\$ 533,493
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	149,913
Donations for capital projects	(256,941)
(Increase) decrease in current assets:	
Accounts receivable	(4,137)
Pledges receivable	(357,017)
Prepaid expenses	6,633
Inventory	(5,375)
Increase (decrease) in current liabilities:	
Accounts payable	18,275
Accrued payroll	550
Deferred program service revenue	12,080
Total adjustments	(436,019)
Net cash from operating activities	97,474
CASH FLOWS FROM (TO) INVESTING ACTIVITIES:	
Purchase of property and equipment	(328,465)
Net cash to investing activities	(328,465)
CASH FLOWS FROM (TO) FINANCING ACTIVITIES:	
Advances from line of credit	33,956
Donations for capital projects	256,941
Proceeds from new loan	213,150
Repayment of long-term loan	(50,517)
Net cash from financing activities	453,530
NET CHANGE IN CASH	222,539
CASH - JANUARY 1, 2017	194,788
CASH - DECEMBER 31, 2017	\$ 417,327
SUPPLEMENTAL CASH FLOW INFORMATION:	
Cash paid during the year for interest	\$ 28,285

See Notes to Financial Statements.

KARME CHOLING SHAMBHALA MEDITATION CENTER
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017

EXHIBIT D

	Program	Supporting Services		Totals
		Fund Raising	Management and General	
Personnel expenses	\$ 493,157	\$ 64,889	\$ 90,845	\$ 648,891
Honoraria	157,290	0	0	157,290
Advertising and marketing	25,707	6,203	6,061	37,971
Bad debt	2,529	0	0	2,529
Bank fees	35,223	9,935	0	45,158
Depreciation	149,913	0	0	149,913
Facilities	292,889	16,272	16,271	325,432
Insurance	23,051	0	0	23,051
Interest and finance charges	28,285	0	0	28,285
Legal and professional	16,886	938	938	18,762
Materials and supplies	34,273	4,284	4,284	42,841
Miscellaneous	42	0	0	42
Office expenses	23,440	2,930	2,930	29,300
Participants' meals	148,834	0	0	148,834
Staff expenses	0	0	7,061	7,061
Telephone	9,246	1,156	1,156	11,558
Transportation	29,621	0	5,762	35,383
Total functional expenses	<u>\$ 1,470,386</u>	<u>\$ 106,607</u>	<u>\$ 135,308</u>	<u>\$ 1,712,301</u>

See Notes to Financial Statements.

KARME CHOLING SHAMBHALA MEDITATION CENTER

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

Karmê Chöling Shambhala Meditation Center is a division of Shambhala, USA, Inc., a Colorado non-profit doing business in the State of Vermont with the trade name of Karmê Chöling Shambhala Meditation Center.

Nestled in the beautiful green mountains of Vermont's Northeast Kingdom, Karmê Chöling offers contemplative programs to inspire wisdom and compassion in our everyday lives. As part of the global community of Shambhala, Karmê Chöling is dedicated to awakening our human hearts with kindness, bravery, and genuine dialogue.

With an array of accommodations, elegant meditation halls, an abundant organic garden, and a warm, inviting residential staff, we offer an ideal setting to explore what it means to be fully human while deepening connection to the earth, self, and society.

Samadhi Cushion is a separate division of Shambhala USA, located in Barnet, Vermont. Karmê Chöling purchases many religious items and books from Samadhi Cushion for use at Karmê Chöling. On occasion, Samadhi Cushion has transferred funds to Karmê Chöling for special projects.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Presentation

The accompanying financial statements are presented on the accrual basis, recognizing expenses when incurred and revenue when earned. Program revenues which are received in advance are held as deferred revenue until the program occurs, at which point the revenue is recognized.

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codification. Under the Codification, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Organization had no permanently restricted net assets at December 31, 2017.

Contributions

In accordance with the FASB Accounting Standards Codification, contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contribution was made. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. The transfer of assets with donor-imposed conditions is accounted for as a refundable advance, instead of a contribution, until the conditions have been substantially met.

KARME CHOLING SHAMBHALA MEDITATION CENTER

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

Karmê Chöling Shambhala Meditation Center is a tax-exempt organization as a division of Shambhala, USA, Inc. under Internal Revenue Code Section 501(c)(3) as a church and, accordingly, incurs no income taxes, except for those taxes, if any, on unrelated business income. Karmê Chöling does not expect to pay income taxes on net unrelated business income for 2017.

Donated Property and Services

Donated assets are recorded at their fair value at date of gift, if determinable.

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.

Volunteers also provided services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria were not met. However, it should be noted that a substantial number of volunteers have donated significant amounts of their time in the Organization's program services and fund raising campaigns.

Equipment and Depreciation

Equipment valued at over \$1,000 is recorded at cost. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. When items of property or equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts, and any gain or loss is included in income. Depreciation is computed using declining balance methods. Depreciation on equipment and vehicles is computed over a period of 3 - 10 years. Depreciation on buildings and improvements is computed over a period of 30 - 50 years.

Cash Equivalents

For purposes of cash flow statement presentation, the Organization considers investments with a maturity of three months or less to be cash equivalents.

Investments

The Organization carries investments in marketable securities with readily determinable fair values 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. Donated investments are recorded at their fair value on the date of receipt.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances.

KARME CHOLING SHAMBHALA MEDITATION CENTER

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Promises to Give (Pledges receivables)

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Use of Estimates

The preparation of 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.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Sales and Inventory

The Organization sells personal items, books and supplies at a small store on the property. Inventory is recorded at the lower of cost or market.

NOTE 2 - CASH ACCOUNTS

At December 31, 2017, the total Organization's bank balance of \$426,603. Of this amount, \$250,000 was insured by the FDIC and \$176,603 was uninsured and uncollateralized.

NOTE 3 – INVESTMENTS AND FAIR VALUE

Investments are reported on the basis of quoted market prices and consist primarily of investments with readily determinable fair values. The fair value of the investments above was obtained from the Vermont Community Foundation who holds the securities and is deemed to be valued at "Level 1" – quoted prices in an active market. The investments are in the nonprofit socially responsive pool at the VCF.

KARME CHOLING SHAMBHALA MEDITATION CENTER

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 3 – INVESTMENTS AND FAIR VALUE (Continued)

Net investment return for the year ended December 31, 2017 includes the following:

Interest and dividend income	\$	507
Realized gains on sales		512
Unrealized gains		3,450
Investment fees		(423)
Total net investment gain	\$	<u>4,046</u>

Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions.

	Fair Value	Quoted Prices In Active Markets For Identical Assets (Level 1)
Mutual funds	\$ <u>32,562</u>	\$ <u>32,562</u>

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2017 were \$55,501, net of an allowance for bad debt of \$10,615. All of this relates to program fees for programs which have already happened.

NOTE 5 – PROMISES TO GIVE

The Organization is undertaking a capital campaign to build a new building. Promises to give are related to that campaign, and are collectible as follows:

2018	\$	142,234
2019		132,983
2020		61,700
2021		<u>20,100</u>
	\$	<u>357,017</u>

KARME CHOLING SHAMBHALA MEDITATION CENTER

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2017 consisted of the following:

	December 31, 2016	Additions	Depreciation	December 31, 2017
Land	\$ 299,887	\$ 0	\$ 0	\$ 299,887
Land improvements	231,272	21,395	0	252,667
Buildings and improvements	3,506,079	301,801	0	3,807,880
Equipment	552,662	5,269	0	557,931
Accumulated depreciation	(2,505,917)	0	(149,913)	(2,655,830)
Net equipment	<u>\$ 2,083,983</u>	<u>\$ 328,465</u>	<u>\$ (149,913)</u>	<u>\$ 2,262,535</u>

NOTE 7 – DEFERRED PROGRAM SERVICE REVENUE

The Organization receives registration for its various programs on a rolling basis. When registrations are received for programs and housing, the revenue is deferred until the program begins. At December 31, 2017, the total deferred program revenues were \$143,783.

NOTE 8 – DEBT AND INTEREST

The Organization has a \$150,000 working Line of Credit with the Passumpsic Savings Bank with interest at prime (4.75% at December 31, 2017), secured by substantially all of the Organization's business assets and expiring July, 2018. The balance on the line at December 31, 2017 was \$68,922. Interest expense on this loan was \$724 for the year ended December 31, 2017.

The Organization has a Mortgage with the Passumpsic Savings Bank with interest at 4.5% for five years, and then adjusted annually to the Wall Street Prime rate plus 1% with a floor of 4.5%, secured with a first mortgage on the property. It is a 15 year term, with a final payment in December, 2031. The balance at December 31, 2017 was \$502,722, and interest paid during the year was \$23,358.

The Organization has a Mortgage with the Passumpsic Savings Bank with interest at 4.5% for five years, and then adjusted annually to the Wall Street Prime rate plus 1% with a floor of 4.5%, secured with a mortgage on the property, for the purpose of putting a new roof on the building. It is a 20 year term, with a final payment in February, 2037. The balance at December 31, 2017 was \$199,275, and interest paid during the year was \$4,060.

KARME CHOLING SHAMBHALA MEDITATION CENTER

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 8 – DEBT AND INTEREST (Continued)

Maturities of long-term debt are approximately as follows:

2018	\$ 34,300
2019	35,900
2020	37,500
2021	39,200
2022	41,000
Thereafter	514,097
Total	<u>\$ 701,997</u>

Total interest paid during 2017 was \$28,285. This is made up of the interest listed above and small amounts of other interest paid on various trade accounts during the year.

NOTE 9 - RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets activity for the year was:

	<u>2016</u>	<u>New donations</u>	<u>Releases</u>	<u>2017</u>
Capital	\$ 21,158	\$ 613,959	\$ (67,141)	\$ 567,976
Expansion	38,091	2,127	(22,650)	17,568
Scholarships	1,951	195,534	(136,122)	61,363
Programs	26,385	14,891	(26,197)	15,079
	<u>\$ 87,585</u>	<u>\$ 826,511</u>	<u>\$ (252,110)</u>	<u>\$ 661,986</u>

NOTE 10 – UNRESTRICTED NET ASSETS

The Organization's unrestricted net assets are as follows:

	<u>December 31, 2016</u>	<u>Increase/ (Decrease)</u>	<u>December 31, 2017</u>
Unrestricted, designated			
For investment in plant and equipment	\$ 1,544,619	\$ 15,919	\$ 1,560,538
For long-term planning	26,216	6,346	32,562
Unrestricted, undesignated	<u>(42,502)</u>	<u>(63,173)</u>	<u>(105,675)</u>
Total unrestricted net assets	<u>\$ 1,528,333</u>	<u>\$ (40,908)</u>	<u>\$ 1,487,425</u>

KARME CHOLING SHAMBHALA MEDITATION CENTER

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 11 – ADVERTISING

The Organization uses advertising to promote its programs among the audiences it serves. The production costs of advertising are expensed as incurred. Total advertising and marketing costs for the year ended December 31, 2017 was \$37,971.

NOTE 12 – RELATIONSHIP WITH PARENT ORGANIZATION

Karmê Chöling Shambhala Meditation Center is a division of Shambhala, USA, Inc., a Colorado non-profit doing business in the State of Vermont with the trade name of Karmê Chöling Shambhala Meditation Center. During 2017, Karmê Chöling transferred \$36,000 to Shambhala USA supporting the activities of Shambhala USA that Karmê Chöling depends on for various activities, such as the management and organization of larger international programs and development of practice materials. There were transfers to Karmê Chöling from foreign resident donations of \$28,119.

NOTE 13 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 7, 2018, the date which the financial statements were available for issue. Management is not aware of any subsequent events which require disclosure.