

CORAZON, INC.

FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012

## CONTENTS

INDEPENDENT AUDITORS' REPORT	2
FINANCIAL STATEMENTS	
Statements of Financial Position	4
Statements of Activities and Changes in Net Assets	5 – 6
Statements of Cash Flows	7
Statements of Functional Expenses	8 – 9
Notes to Financial Statements	10 –15

# Guzman & Gray

Certified Public Accountants

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Mark Gray, C.P.A.  
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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Corazon, Inc.

We have audited the accompanying financial statements of Corazon, Inc. (a nonprofit organization), which comprise the financial position as of December 31, 2013 and 2012, and the related statements of activities and changes in net assets, 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.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 auditors' 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 Organization'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 Organization'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.

Auditors' Responsibility (Continued)

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 Corazon, Inc. as of December 31, 2013 and 2012, 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.



GUZMAN & GRAY  
Long Beach, CA  
April 1, 2014

CORAZON, INC.  
STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2013 AND 2012

ASSETS

	December 31,	
	2013	2012
CURRENT ASSETS		
Cash and cash equivalents	\$ 272,764	\$ 170,082
Certificates of deposit		11,228
Prepays	5,014	5,308
Total Current Assets	277,778	186,618
PROPERTY AND EQUIPMENT, net	10,123	12,883
OTHER ASSETS		
Deposit	1,893	1,893
Total Other Assets	1,893	1,893
TOTAL ASSETS	\$ 289,794	\$ 201,394

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 1,010	\$ 1,134
Deferred construction revenue	4,000	8,422
Accrued payroll	4,973	7,507
Total Current Liabilities	9,983	17,063
NET ASSETS		
Unrestricted	210,748	137,320
Temporarily restricted	69,063	47,011
Total Net Assets	279,811	184,331
TOTAL LIABILITIES AND NET ASSETS	\$ 289,794	\$ 201,394

See independent auditors' report and notes to the financial statements

CORAZON, INC.  
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUES AND SUPPORT			
Donations	\$ 255,740	\$ 20,585	\$ 276,325
Community development	7,845		7,845
Construction project donations	241,370	19,342	260,712
Scholarship donations		32,459	32,459
In-kind materials	49,306		49,306
Interest	28		28
Realized loss on investments	(422)		(422)
	<u>553,867</u>	<u>72,386</u>	<u>626,253</u>
NET ASSETS RELEASED FROM RESTRICTION	<u>50,334</u>	<u>(50,334)</u>	
TOTAL REVENUES AND SUPPORT	<u>604,201</u>	<u>22,052</u>	<u>626,253</u>
EXPENSES			
Program	467,462		467,462
Management and general	51,882		51,882
Fundraising	11,429		11,429
TOTAL EXPENSES	<u>530,773</u>		<u>530,773</u>
CHANGES IN NET ASSETS	73,428	22,052	95,480
BEGINNING NET ASSETS	<u>137,320</u>	<u>47,011</u>	<u>184,331</u>
ENDING NET ASSETS	<u>\$ 210,748</u>	<u>\$ 69,063</u>	<u>\$ 279,811</u>

See independent auditors' report and notes to the financial statements

CORAZON, INC.  
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUES AND SUPPORT			
Donations	\$ 208,270	\$	\$ 208,270
Community development	8,521		8,521
Construction project donations	169,957	20,070	190,027
Scholarship donations		29,607	29,607
In-kind materials	22,080		22,080
Interest	49		49
Realized gain on investments	148		148
Other revenue	200		200
	<u>409,225</u>	<u>49,677</u>	<u>458,902</u>
NET ASSETS RELEASED FROM RESTRICTION	<u>31,119</u>	<u>(31,119)</u>	
TOTAL REVENUES AND SUPPORT	<u>440,344</u>	<u>18,558</u>	<u>458,902</u>
EXPENSES			
Program	383,183		383,183
Management and general	52,482		52,482
Fundraising	13,927		13,927
TOTAL EXPENSES	<u>449,592</u>		<u>449,592</u>
CHANGES IN NET ASSETS	(9,248)	18,558	9,310
BEGINNING NET ASSETS	<u>146,568</u>	<u>28,453</u>	<u>175,021</u>
ENDING NET ASSETS	<u>\$ 137,320</u>	<u>\$ 47,011</u>	<u>\$ 184,331</u>

See independent auditors' report and notes to the financial statements

CORAZON, INC.  
STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	December 31,	
	<u>2013</u>	<u>2012</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 95,480	\$ 9,310
Adjustments to Reconcile ChangeS in Net Assets to Net Cash Provided By		
Depreciation	6,060	7,154
Donated stock	(37,588)	(27,637)
Donated asset	(3,300)	
(Increase) decrease in assets:		
Certificates of deposit	11,228	11,655
Prepaid expenses	294	1,025
Deposits		710
Increase (decrease) in liabilities:		
Accounts payable	(124)	(960)
Deferred revenue	(4,422)	7,972
Accrued payroll	(2,534)	6,592
Net Cash From Operating Activities	<u>65,094</u>	<u>15,821</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	<u>37,588</u>	<u>32,726</u>
Net Cash From Investing Activities	<u>37,588</u>	<u>32,726</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	102,682	48,547
<b>BEGINNING CASH AND CASH EQUIVALENTS</b>	<u>170,082</u>	<u>121,535</u>
<b>ENDING CASH AND CASH EQUIVALENTS</b>	<u>\$ 272,764</u>	<u>\$ 170,082</u>
 <b>INTEREST PAID</b>	 <u>NONE</u>	 <u>NONE</u>
<b>INCOME TAXES PAID</b>	<u>NONE</u>	<u>NONE</u>

See independent auditors' report and notes to the financial statements



CORAZON, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
<b>SALARIES AND BENEFITS</b>				
Salaries	\$ 72,555	\$ 15,275	\$ 7,637	\$ 95,467
Payroll taxes	6,446	1,357	679	8,482
Employee benefits	6,750	1,421	711	8,883
Total Salaries and Benefits	<u>85,751</u>	<u>18,053</u>	<u>9,027</u>	<u>112,832</u>
<b>OTHER EXPENSES</b>				
Donation for construction				
supplies and office expenses	269,407			269,407
In-kind expenses	49,306			49,306
Rent	13,467	2,693	1,796	17,956
Other program expenses	24,571			24,571
Insurance	5,849	3,900		9,749
Professional fees		9,528		9,528
Travel	9,294			9,294
Depreciation	4,545	909	606	6,060
Miscellaneous		5,011		5,011
Supplies	3,340	3,340		6,680
Telephone	1,932	1,932		3,864
Bank fees		776		776
Dues and subscriptions		881		881
Staff development		4,859		4,859
Total Other Expenses	<u>381,711</u>	<u>33,829</u>	<u>2,402</u>	<u>417,942</u>
<b>TOTAL EXPENSES</b>	<u><u>\$ 467,462</u></u>	<u><u>\$ 51,882</u></u>	<u><u>\$ 11,429</u></u>	<u><u>\$ 530,774</u></u>

See independent auditors' report and notes to the financial statements

CORAZON, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
<b>SALARIES AND BENEFITS</b>				
Salaries	\$ 88,678	\$ 18,669	\$ 9,335	\$ 116,682
Payroll taxes	7,781	1,638	819	10,238
Employee benefits	7,607	1,602	801	10,010
Total Salaries and Benefits	<u>104,066</u>	<u>21,909</u>	<u>10,955</u>	<u>136,930</u>
<b>OTHER EXPENSES</b>				
Donation for construction				204,563
supplies and office expenses	204,563			204,563
In-kind expenses	22,080			22,080
Rent	16,924	3,385	2,257	22,566
Other program expenses	10,484			10,484
Insurance	7,279	4,853		12,132
Professional fees		10,807		10,807
Travel	8,736			8,736
Depreciation	5,366	1,073	715	7,154
Miscellaneous		5,173		5,173
Supplies	1,912	1,911		3,823
Telephone	1,773	1,772		3,545
Bank fees		921		921
Dues and subscriptions		323		323
Staff development		355		355
Total Other Expenses	<u>279,117</u>	<u>30,573</u>	<u>2,972</u>	<u>312,662</u>
<b>TOTAL EXPENSES</b>	<u><u>\$ 383,183</u></u>	<u><u>\$ 52,482</u></u>	<u><u>\$ 13,927</u></u>	<u><u>\$ 449,592</u></u>

See independent auditors' report and notes to the financial statements

CORAZON, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012

NOTE 1 – NATURE OF ACTIVITIES

Corazon, Inc. was founded in 1978 in the State of California. Its office is located in Santa Ana, California. During the early years, Corazon was an all-volunteer organization that helped the poor in several villages surrounding Tijuana, Mexico with immediate needs of food, clothing, and shelter. In 1995, the Familia Corazon program was born, and Corazon's focus became strengthening individuals, families, and community. Today, Corazon remains 99% volunteer driven and inspires thousands of lives on both sides of the border. Corazon functions as a private sector 501(c)(3) non profit organization. Corazon works with an affiliated organization located in Mexico. The affiliation does not meet the requirement for consolidation.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

Corazon uses the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Basis of Presentation

The net assets and revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire by the passage of time. Temporarily restricted resources whose restrictions are met in the same reporting period are recorded as unrestricted.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results may differ from those estimates.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, Corazon considers cash on hand and cash in other depository institutions with an original maturity of three months or less to be cash equivalents.

Investments

Corazon records investments at their fair market value. Contributed securities are stated at their market value on the date of donation. Net realized and unrealized gains and losses on investments are reflected in the statement of activities.

CORAZON, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Furniture and equipment accounts are stated at cost less accumulated depreciation. Betterments and major improvements are added to the respective asset's cost while ordinary repairs that do not extend useful lives are expensed as incurred. When an asset is sold or otherwise disposed of, the cost of the asset and the related accumulated depreciation is removed from the accounts and any resulting gain or loss is included in the statement of activities.

Depreciation of furniture and equipment are provided on the straight-line method over the estimated useful lives ranging from three to five years.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. Unconditional promises to give (i.e., pledges) are recognized when made by the donor. Any restricted contribution whose purpose is met within the fiscal year is accounted for as an unrestricted contribution.

Construction Donations

Corazon receives construction project contributions. Under its contract with donors, \$1,000 of the contribution is non-refundable and is recorded as temporarily restricted income when received. The remainder of the contribution is considered refundable and is recorded as deferred revenue when received and recognized as income at the completion of the project.

Costs pertaining to incomplete projects are recorded as classified as Projects in Progress assets. For the years ended December 31, 2013 and 2012, there were no projects in progress.

Donated Services and Materials

Corazon recognizes the contribution of services if the services received require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributed services that do not meet the criteria shall not be recognized.

Donated goods and materials are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated goods to a specific purpose.

Functional Expenses

The costs of providing Corazon's programs and supporting services have been summarized on a functional basis. Accordingly, certain costs have been allocated between the program and supporting services benefited.

CORAZON, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Exempt Organization Status

Corazon is exempt from income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue Code Section 23701(d). Corazon is classified by the Internal Revenue Service as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(c)(2). Income for certain activities not directly related to Corazon's tax-exempt purpose is subject to unrelated business income taxation.

Corazon evaluates uncertain tax positions whereby the effect of the uncertainty would be recorded if the tax positions will more likely than not be sustained upon examination. As of December 31, 2013, management does not believe the Organization has any uncertain tax positions requiring accrual or disclosure. Corazon is subject to potential income tax audits on open tax years by any taxing jurisdiction in which it operates. The statute of limitations for federal and California state purposes is generally three and four years, respectively.

Reclassifications

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 presentation.

Reporting of Subsequent Events

Corazon has evaluated events and transactions for potential recognition or disclosure through April 1, 2014, the date the financial statements were available to be issued.

CORAZON, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2013 AND 2012

NOTE 3 – FAIR VALUE MEASUREMENTS

Generally accepted accounting principles establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. The fair value hierarchy is as follows:

Level 1: Quoted prices in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to level 1 inputs.

Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

Level 3: Inputs that are unobservable and based on the Organization’s assumptions, estimates, and internally developed inputs. The fair value hierarchy gives lowest priority to level 3 inputs.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair measurement in its entirety.

Fair values measured on a recurring basis

As of December 31, 2013, there were no assets measured at fair value.

The carrying values of investment assets as of December 31, 2012 are as follows:

	Fair Value Measurements at December 31, 2012			
	Level 1	Level 2	Level 3	Total
Certificates of deposit	<u>\$</u>	<u>\$ 11,228</u>	<u>\$</u>	<u>\$ 11,228</u>

The carrying value of cash and cash equivalents are reasonable estimates of fair value due to their short term nature and are not presented in the tables presented above.

CORAZON, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012

NOTE 4 – PROPERTY AND EQUIPMENT

A summary of property and equipment for the year ended December 31 is as follows:

	December 31,	
	2013	2012
Office furniture and equipment	\$ 13,085	\$ 20,475
Computer equipment	24,444	31,014
Construction tools	3,333	3,333
Special equipment	10,000	11,050
Vehicles	3,300	43,168
	54,162	109,040
Less accumulated depreciation	( 44,039)	( 96,157)
Net property and equipment	\$ 10,123	\$ 12,883

For the years ended December 31, 2013 and 2012, depreciation expense was \$6,060 and \$7,154, respectively.

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

For the years ended December 31, 2013 and 2012, temporarily restricted net assets are available for the following purposes:

	December 31,	
	2013	2012
Scholarships	\$ 34,734	\$ 26,941
Construction	17,842	20,070
Education and childcare programs	15,487	
Training	1,000	
Total temporarily restricted net assets	\$ 69,063	\$ 49,677

Net assets were released from donor restrictions either by incurring expenses, which satisfied the restricted purposes or by the occurrences of other events specified by donors during the years ended December 31, 2013 and 2012.

CORAZON, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012

NOTE 6 – IN-KIND GOODS AND SERVICES

Many individuals volunteer their time and perform a variety of tasks that assist the Organization. For the years ended December 31, 2013 and 2012, no amounts have been recognized in the statement of activities as they have not met the criteria described in Note 2.

Corazon receives donated lumber, construction materials, and supplies used for its building program. Donated materials are used in the year the materials are received. For the years ended December 31, 2013 and 2012, Corazon recognized in-kind revenues and expenses of \$49,306 and \$22,080, respectively.

NOTE 7 – LEASE COMMITMENTS

During August 2012, the Organization entered a three year operating lease agreement for office space located in Santa Ana, California. The lease requires monthly rent payments \$1,271 and is subject to annual rate increases. The Organization also leases garage space at a fixed monthly rental rate of \$250 for the term of the lease. For the years ended December 31, 2013 and 2012, rent expense for the facility was \$17,956 and \$22,566, respectively.

Future minimum payments for the year ending December 31 are as follows:

Year Ending December 31,		
2014	\$	18,382
2015		<u>10,827</u>
	\$	<u>29,209</u>

NOTE 8 – CONCENTRATIONS OF CREDIT RISK

Cash deposits in financial institutions may exceed federally insured limits at times during the year. As of December 31, 2013 and 2012, the cash balances held at financial institutions did not exceed the FDIC insurance amount of \$250,000. Cash deposited in financial institutions differs from cash presented in the statement of financial position due to timing differences.

The Organization's fundraising is conducted in its business office in Orange County, California and is dependent upon the local economy. A significant percentage of program operations are conducted in affiliation with a Mexican non-profit organization which is subject to risks concerning foreign operations.

Management believes they are in compliance with the rules and regulations concerning their foreign operations.