

CORAZON, INC.

FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

CONTENTS

INDEPENDENT AUDITORS' REPORT	2
FINANCIAL STATEMENTS	
Statement of Financial Position	4
Statement of Activities and Changes in Net Assets	5 – 6
Statement of Cash Flows	7
Statement of Functional Expenses	8 – 9
Notes to Financial Statements	10 –14

Guzman & Gray

Certified Public Accountants

4510 East Pacific Coast Highway, Suite 270
Long Beach, California 90804
(562) 498-0997 Fax: (562) 597-7359

Mark Gray, C.P.A.
Patrick S. Guzman, C.P.A.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Corazon, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Corazon, Inc. (a nonprofit organization), which comprise the financial position as of December 31, 2014 and 2013, 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, 2014 and 2013, 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 17, 2015

CORAZON, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2014 AND 2013

ASSETS

	December 31,	
	2014	2013
CURRENT ASSETS		
Cash and cash equivalents	\$ 288,438	\$ 272,764
Receivables	253	
Prepays	8,149	5,014
Total Current Assets	296,840	277,778
PROPERTY AND EQUIPMENT, net	3,888	10,123
OTHER ASSETS		
Deposit	1,893	1,893
Total Other Assets	1,893	1,893
TOTAL ASSETS	\$ 302,621	\$ 289,794

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 2,856	\$ 1,010
Deferred construction revenue	23,310	4,000
Accrued payroll	4,169	4,973
Total Current Liabilities	30,335	9,983
NET ASSETS		
Unrestricted	229,137	210,748
Temporarily restricted	43,149	69,063
Total Net Assets	272,286	279,811
TOTAL LIABILITIES AND NET ASSETS	\$ 302,621	\$ 289,794

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, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUES AND SUPPORT			
Donations	\$ 235,520	\$ 1,000	\$ 236,520
Community development	13,254		13,254
Construction project donations	255,676	16,160	271,836
Scholarship donations		44,747	44,747
In-kind materials	35,906		35,906
Interest	28		28
Loss on disposal of asset	(3,300)		(3,300)
Realized loss on investments	(117)		(117)
	<u>536,967</u>	<u>61,907</u>	<u>598,874</u>
NET ASSETS RELEASED FROM RESTRICTION	<u>87,821</u>	<u>(87,821)</u>	<u> </u>
TOTAL REVENUES AND SUPPORT	<u>624,788</u>	<u>(25,914)</u>	<u>598,874</u>
EXPENSES			
Program	539,461		539,461
Management and general	54,408		54,408
Fundraising	12,530		12,530
TOTAL EXPENSES	<u>606,399</u>	<u> </u>	<u>606,399</u>
CHANGES IN NET ASSETS	18,389	(25,914)	(7,525)
BEGINNING NET ASSETS	<u>210,748</u>	<u>69,063</u>	<u>279,811</u>
ENDING NET ASSETS	<u>\$ 229,137</u>	<u>\$ 43,149</u>	<u>\$ 272,286</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, 2013

	Unrestricted	Temporarily Restricted	Total
REVENUES AND SUPPORT			
Donations	\$ 252,203	\$ 20,585	\$ 272,788
Community development	11,382		11,382
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)
	553,867	72,386	626,253
NET ASSETS RELEASED FROM RESTRICTION	50,334	(50,334)	
TOTAL REVENUES AND SUPPORT	604,201	22,052	626,253
EXPENSES			
Program	467,463		467,463
Management and general	51,881		51,881
Fundraising	11,429		11,429
	530,773		530,773
TOTAL EXPENSES	530,773		530,773
CHANGES IN NET ASSETS	73,428	22,052	95,480
BEGINNING NET ASSETS	137,320	47,011	184,331
ENDING NET ASSETS	\$ 210,748	\$ 69,063	\$ 279,811

See independent auditors' report and notes to the financial statements

CORAZON, INC.
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	December 31,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (7,525)	\$ 95,480
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided By		
Depreciation	3,907	6,060
Donated stock	(9,029)	(37,588)
Donated asset		(3,300)
Loss on sale of assets	3,417	422
(Increase) decrease in assets:		
Certificates of deposit		11,228
Receivables	(253)	
Prepaid expenses	(3,135)	294
Increase (decrease) in liabilities:		
Accounts payable	1,846	(124)
Deferred revenue	19,310	(4,422)
Accrued payroll	(804)	(2,534)
Net Cash From Operating Activities	7,734	65,516
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(972)	
Proceeds from sale of investments	8,912	37,166
Net Cash From Investing Activities	7,940	37,166
NET INCREASE IN CASH AND CASH EQUIVALENTS	15,674	102,682
BEGINNING CASH AND CASH EQUIVALENTS	272,764	170,082
ENDING CASH AND CASH EQUIVALENTS	\$ 288,438	\$ 272,764
INTEREST PAID	NONE	NONE
INCOME TAXES PAID	NONE	NONE

See independent auditors' report and notes to the financial statements

CORAZON, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2014

	Program	Management and General	Fundraising	Total
SALARIES AND BENEFITS				
Salaries	\$ 85,268	\$ 17,951	\$ 8,976	\$ 112,195
Payroll taxes	7,203	1,516	758	9,477
Employee benefits	5,784	1,218	609	7,611
Total Salaries and Benefits	<u>98,255</u>	<u>20,685</u>	<u>10,343</u>	<u>129,283</u>
OTHER EXPENSES				
Donation for construction				333,652
supplies and office expenses	333,652			36,935
Other program expenses	36,935			35,906
In-kind expenses	35,906			17,956
Rent	13,467	2,693	1,796	9,819
Professional fees		9,819		9,267
Travel	9,267			9,112
Insurance	5,467	3,645		4,247
Staff development		4,247		3,907
Depreciation	2,930	586	391	3,862
Supplies	1,931	1,931		3,302
Telephone	1,651	1,651		1,489
Bank fees		1,489		223
Dues and subscriptions		223		7,439
Miscellaneous		7,439		477,116
Total Other Expenses	<u>441,206</u>	<u>33,723</u>	<u>2,187</u>	<u>477,116</u>
TOTAL EXPENSES	<u>\$ 539,461</u>	<u>\$ 54,408</u>	<u>\$ 12,530</u>	<u>\$ 606,399</u>

See independent auditors' report and notes to the financial statements

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

	Program	Management and General	Fundraising	Total
SALARIES AND BENEFITS				
Salaries	\$ 72,555	\$ 15,275	\$ 7,637	\$ 95,467
Payroll taxes	6,446	1,357	679	8,482
Employee benefits	6,751	1,421	711	8,883
Total Salaries and Benefits	<u>85,752</u>	<u>18,053</u>	<u>9,027</u>	<u>112,832</u>
OTHER EXPENSES				
Donation for construction				269,407
supplies and office expenses	269,407			269,407
Other program expenses	24,571			24,571
In-kind expenses	49,306			49,306
Rent	13,467	2,693	1,796	17,956
Professional fees		9,528		9,528
Travel	9,294			9,294
Insurance	5,849	3,900		9,749
Staff development		4,859		4,859
Depreciation	4,545	909	606	6,060
Supplies	3,340	3,340		6,680
Telephone	1,932	1,932		3,864
Bank fees		776		776
Dues and subscriptions		881		881
Miscellaneous		5,010		5,010
Total Other Expenses	<u>381,711</u>	<u>33,828</u>	<u>2,402</u>	<u>417,941</u>
TOTAL EXPENSES	<u>\$ 467,463</u>	<u>\$ 51,881</u>	<u>\$ 11,429</u>	<u>\$ 530,773</u>

See independent auditors' report and notes to the financial statements

CORAZON, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

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. As of December 31, 2014 and 2013, there were no permanently restricted assets.

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.

CORAZON, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2014 and 2013, 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.

CORAZON, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2014, 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 2013 financial statements to conform to the 2014 presentation.

Reporting of Subsequent Events

Corazon has evaluated events and transactions for potential recognition or disclosure through April 17, 2015, the date the financial statements were available to be issued.

CORAZON, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 3 – PROPERTY AND EQUIPMENT

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

	December 31,	
	2014	2013
Office furniture and equipment	\$ 13,085	\$ 13,085
Computer equipment	25,416	24,444
Construction tools	3,333	3,333
Special equipment	10,000	10,000
Vehicles		3,300
	51,834	54,162
Less accumulated depreciation	(47,946)	(44,039)
Net property and equipment	\$ 3,888	\$ 10,123

For the years ended December 31, 2014 and 2013, depreciation expense was \$3,907 and \$6,060, respectively.

NOTE 4 – TEMPORARILY RESTRICTED NET ASSETS

For the years ended December 31, 2014 and 2013, temporarily restricted net assets are available for the following purposes:

	December 31,	
	2014	2013
Scholarships	\$ 25,989	\$ 34,734
Construction	16,160	17,842
Education and childcare programs		15,487
Training	1,000	1,000
Total temporarily restricted net assets	\$ 43,149	\$ 69,063

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, 2014 and 2013.

CORAZON, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 5 – 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, 2014 and 2013, 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, 2014 and 2013, Corazon recognized in-kind revenues and expenses of \$35,906 and \$49,306, respectively.

NOTE 6 – 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, 2014 and 2013, rent expense for the facility was \$17,956 and \$17,956, respectively.

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

<u>Year Ending December 31,</u>	
2015	\$ 10,827
2016	<u>none</u>
	<u>\$ 10,827</u>

NOTE 7 – CONCENTRATIONS OF CREDIT RISK

Cash deposits in financial institutions may exceed federally insured limits at times during the year. As of December 31, 2014 and 2013, 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.