

CORAZON, INC.

FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

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# *Guzman & Gray*

Certified Public Accountants

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Corazon, Inc.

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Corazon, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016 and 2015, and the related statements of activities and changes in net assets, functional expenses, and cash flows 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.

### **Auditors' 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.

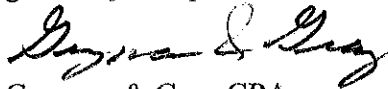
INDEPENDENT AUDITORS' REPORT (Continued)

**Auditor's 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, 2016 and 2015, 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.



Guzman & Gray CPAs  
Long Beach, CA  
August 18, 2017

CORAZON, INC.  
STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2016 AND 2015

ASSETS

	December 31,	
	2016	2015
CURRENT ASSETS		
Cash and cash equivalents	\$ 355,801	\$ 379,932
Prepays	48,830	25,904
Total Current Assets	404,631	405,836
PROPERTY AND EQUIPMENT, net	583	777
OTHER ASSETS		
Deposit	1,893	1,893
Total Other Assets	1,893	1,893
TOTAL ASSETS	\$ 407,107	\$ 408,506

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 21,126	\$ 1,085
Deferred construction revenue	32,003	51,613
Accrued payroll	2,345	6,754
Total Current Liabilities	55,474	59,452
NET ASSETS		
Unrestricted	319,224	328,249
Temporarily restricted	32,409	20,805
Total Net Assets	351,633	349,054
TOTAL LIABILITIES AND NET ASSETS	\$ 407,107	\$ 408,506

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, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUES AND SUPPORT			
Donations	\$ 259,096		\$ 259,096
Community development	1,790		1,790
Construction project donations	320,325	\$ 19,112	339,437
Scholarship donations	4,011	120,728	124,739
In-kind materials	10,260		10,260
Interest	29		29
Realized gain on investments	72		72
Bus Revenue	22,831		22,831
	<u>618,414</u>	<u>139,840</u>	<u>758,254</u>
NET ASSETS RELEASED FROM RESTRICTION	<u>128,236</u>	<u>(128,236)</u>	
TOTAL REVENUES AND SUPPORT	<u>746,650</u>	<u>11,604</u>	<u>758,254</u>
EXPENSES			
Program	648,049		648,049
Management and general	93,393		93,393
Fundraising	14,233		14,233
TOTAL EXPENSES	<u>755,675</u>		<u>755,675</u>
CHANGES IN NET ASSETS	(9,025)	11,604	2,579
BEGINNING NET ASSETS	<u>328,249</u>	<u>20,805</u>	<u>349,054</u>
ENDING NET ASSETS	<u>\$ 319,224</u>	<u>\$ 32,409</u>	<u>\$ 351,633</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, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>REVENUES AND SUPPORT</b>			
Donations	\$ 286,954		\$ 286,954
Community development	6,360		6,360
Construction project donations	268,972	\$ 19,300	288,272
Scholarship donations		47,512	47,512
In-kind materials	20,655		20,655
Interest	29		29
Realized loss on investments	(38)		(38)
Bus Revenue	17,000		17,000
Other	5,000		5,000
	<u>604,932</u>	<u>66,812</u>	<u>671,744</u>
NET ASSETS RELEASED FROM RESTRICTION	<u>89,156</u>	<u>(89,156)</u>	
TOTAL REVENUES AND SUPPORT	<u>694,088</u>	<u>(22,344)</u>	<u>671,744</u>
<b>EXPENSES</b>			
Program	514,340		514,340
Management and general	67,075		67,075
Fundraising	13,561		13,561
	<u>594,976</u>		<u>594,976</u>
CHANGES IN NET ASSETS	99,112	(22,344)	76,768
BEGINNING NET ASSETS	<u>229,137</u>	<u>43,149</u>	<u>272,286</u>
ENDING NET ASSETS	<u>\$ 328,249</u>	<u>\$ 20,805</u>	<u>\$ 349,054</u>

See independent auditors' report and notes to the financial statements

CORAZON, INC.  
STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	December 31,	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 2,579	\$ 76,768
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided By		
Depreciation	194	3,111
(Increase) decrease in assets:		
Receivables		253
Prepaid expenses	(22,926)	(17,755)
Increase (decrease) in liabilities:		
Accounts payable	20,041	(1,771)
Deferred revenue	(19,610)	28,302
Accrued payroll	(4,409)	2,586
Net Cash From Operating Activities	(24,131)	91,494
 NET INCREASE IN CASH AND CASH EQUIVALENTS	 (24,131)	 91,494
 BEGINNING CASH AND CASH EQUIVALENTS	 379,932	 288,438
 ENDING CASH AND CASH EQUIVALENTS	 \$ 355,801	 \$ 379,932
 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, 2016

	Program	Management and General	Fundraising	Total
<b>SALARIES AND BENEFITS</b>				
Salaries	\$ 101,788	\$ 21,429	\$ 10,715	\$ 133,932
Payroll taxes	9,289	1,956	977	12,222
Employee benefits	4,760	1,002	501	6,263
Total Salaries and Benefits	<u>115,837</u>	<u>24,387</u>	<u>12,193</u>	<u>152,417</u>
<b>OTHER EXPENSES</b>				
Donation for construction supplies and office expenses	420,632			420,632
Other program expenses	47,011			47,011
In-kind expenses	7,205			7,205
Rent	15,155	3,031	2,021	20,207
Professional fees		24,036		24,036
Travel	11,311			11,311
Insurance	21,389	14,260		35,649
Staff development		7,005		7,005
Depreciation	146	29	19	194
Supplies	3,504	3,504		7,008
Telephone	2,256	2,256		4,511
Bank fees		1,412		1,412
Dues and subscriptions		1,064		1,064
Equipment maintenance	3,603			3,603
Miscellaneous		12,410		12,410
Total Other Expenses	<u>532,212</u>	<u>69,006</u>	<u>2,040</u>	<u>603,258</u>
<b>TOTAL EXPENSES</b>	<u>\$ 648,049</u>	<u>\$ 93,393</u>	<u>\$ 14,233</u>	<u>\$ 755,675</u>

See independent auditors' report and notes to the financial statements

CORAZON, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2015

	Program	Management and General	Fundraising	Total
<b>SALARIES AND BENEFITS</b>				
Salaries	\$ 97,763	\$ 20,581	\$ 10,291	\$ 128,635
Payroll taxes	7,961	1,676	838	10,475
Employee benefits	6,750	1,421	711	8,882
Total Salaries and Benefits	<u>112,474</u>	<u>23,678</u>	<u>11,840</u>	<u>147,992</u>
<b>OTHER EXPENSES</b>				
Donation for construction supplies and office expenses	309,091			309,091
Other program expenses	43,167			43,167
In-kind expenses	8,480			8,480
Rent	10,575	2,115	1,410	14,100
Professional fees		10,045		10,045
Travel	10,170			10,170
Insurance	8,882	5,922		14,804
Staff development		7,116		7,116
Depreciation	2,333	467	311	3,111
Supplies	3,080	3,080		6,160
Telephone	1,676	1,675		3,351
Bank fees		2,004		2,004
Dues and subscriptions		300		300
Equipment Maintenance	4,412			4,412
Miscellaneous		10,673		10,673
Total Other Expenses	<u>401,866</u>	<u>43,397</u>	<u>1,721</u>	<u>446,984</u>
<b>TOTAL EXPENSES</b>	<u>\$ 514,340</u>	<u>\$ 67,075</u>	<u>\$ 13,561</u>	<u>\$ 594,976</u>

See independent auditors' report and notes to the financial statements

CORAZON, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

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, 2016 AND 2015

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, 2016 and 2015, 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, 2016 AND 2015

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, 2016, 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.

Reporting of Subsequent Events

Corazon has evaluated events and transactions for potential recognition or disclosure through August 18, 2017, the date the financial statements were available to be issued.

NOTE 3 – PROPERTY AND EQUIPMENT

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

	December 31,	
	2016	2015
Office furniture and equipment	\$ 13,085	\$ 13,085
Computer equipment	25,416	25,416
Construction tools	3,333	3,333
Special equipment	10,000	10,000
Vehicles		
	51,834	51,834
Less accumulated depreciation	( 51,251)	( 51,057)
Net property and equipment	\$ 583	\$ 777

For the years ended December 31, 2016 and 2015, depreciation expense was \$194 and \$3,111, respectively.

CORAZON, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

NOTE 4 – TEMPORARILY RESTRICTED NET ASSETS

For the years ended December 31, 2016 and 2015, temporarily restricted net assets are available for the following purposes:

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
Scholarships	\$ 17,665	\$ 1,505
Construction	<u>14,744</u>	<u>19,300</u>
Total temporarily restricted net assets	<u>\$ 32,409</u>	<u>\$ 20,805</u>

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, 2016 and 2015.

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, 2016 and 2015, 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, 2016 and 2015, Corazon recognized in-kind revenues and expenses of \$10,260 and \$20,655, respectively.

CORAZON, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

NOTE 6 – LEASE COMMITMENTS

During August 2012, the Organization entered into 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, 2016 and 2015, rent expense for the facility was \$20,207 and \$14,100, respectively.

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

<u>Year Ending December 31,</u>	
2017	\$ 20,724
2018	<u>12,268</u>
	<u>\$ 32,992</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, 2016 and 2015, 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.