HAPPY HEARTS FUND, INC. FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2013 AND 2012

YEARS ENDED JUNE 30, 2013 AND 2012

<u>INDEX</u>

	<u>Page</u>
Independent Auditors' Report	1-2
Financial Statements:	
Statements of Financial Position	3
Statements of Activities	4-5
Statements of Functional Expenses	6-7
Statements of Cash Flows	8-9
Notes to Financial Statements	10-18



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Happy Hearts Fund, Inc. New York, New York

We have audited the accompanying financial statements of HAPPY HEARTS FUND, INC. ("HHF") (a nonprofit organization), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities, 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 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 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 auditors consider 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 previously present fairly, in all material respects, the financial position of HHF as of June 30, 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.

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Hamilton, New Jersey February 10, 2014

STATEMENTS OF FINANCIAL POSITION

	June 30,		
	<u>2013</u>	<u>2012</u>	
ASSETS			
Assets Cash and Cash Equivalents Pledges Receivable Investments Prepaid Expenses Deposits	110,000 115,893 4,886		
TOTAL ASSETS	<u>\$ 3,504,463</u>	<u>\$ 3,111,585</u>	
LIABILITIES AND NET ASSETS Liabilities			
Accounts Payable and Accrued Expenses	<u>\$ 132,481</u>	<u>\$ 44,343</u>	
Net Assets Unrestricted Temporarily Restricted Permanently Restricted	· ·	2,917,242 150,000 	
Total Net Assets	3,371,982	3,067,242	
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,504,463</u>	<u>\$ 3,111,585</u>	

STATEMENT OF ACTIVITIES

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Public Support and Revenues				
General Contributions	\$ 3,034,450	\$ -	\$ -	\$ 3,034,450
Contributed Services	157,171	-	-	157,171
Interest and Dividends	6,100	-	-	6,100
Net Assets Released from				
Restrictions	50,000	(50,000)		-
Total Support and Revenue	3,247,721	(50,000)		3,197,721
Expenses				
Program Services	2,278,412	-	-	2,278,412
Management and General	290,137	-	-	290,137
Fundraising and Development	325,794	<u>-</u>		325,794
Total Expenses	2,894,343			2,894,343
Change in Net Assets Before Unrealized				
Gain (Loss) on Investments	353,378	(50,000)	-	303,378
Unrealized Gain (Loss) on Investments	1,362			1,362
Change in Net Assets	354,740	(50,000)	-	304,740
Net Assets, July 1	2,917,242	150,000		3,067,242
Net Assets, June 30	\$ 3,271,982	<u>\$ 100,000</u>	<u>\$</u>	<u>\$ 3,371,982</u>

STATEMENT OF ACTIVITIES

	Unrestricted	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Public Support and Revenues				
General Contributions	\$ 2,906,559	\$ -	\$ -	\$ 2,906,559
Contributed Services	210,000	-	_	210,000
Interest and Dividends	4,560	-	_	4,560
Net Assets Released from				
Restrictions	25,000	(25,000)	-	-
Total Support and Revenue	3,146,119	(25,000)	<u> </u>	3,121,119
Expenses				
Program Services	2,101,312	-	-	2,101,312
Management and General	272,261	-	_	272,261
Fundraising and Development	265,896	<u>-</u>		265,896
Total Expenses	2,639,469	<u>-</u>		2,639,469
Change in Net Assets Before Unrealized				
Gain (Loss) on Investments	506,650	(25,000)	-	481,650
Unrealized Gain (Loss) on Investments	(1,647)	<u> </u>		(1,647)
Change in Net Assets	505,003	(25,000)	-	480,003
Net Assets, July 1	2,412,239	175,000		2,587,239
Net Assets, June 30	<u>\$ 2,917,242</u>	<u>\$ 150,000</u>	<u>\$</u>	\$ 3,067,242

STATEMENT OF FUNCTIONAL EXPENSES

	Program <u>Services</u>		nagement d General	ndraising and <u>velopment</u>		<u>Total</u>
Salaries and Wages	\$ 214,562	\$	36,000	\$ 18,000	\$	268,562
Employee Benefits	35,509	·	5,958	2,979	•	44,446
Payroll Taxes	 19,599		3,288	 1,644		24,531
Total Personnel	269,670		45,246	22,623		337,539
Advertising and Promotion	26,571		2,400	-		28,971
Bank Fees	180		14,806	-		14,986
Consultants	102,783		56,003	110,458		269,244
Dues and Fees	-		11,784	-		11,784
Event Expenses	302,413		-	129,606		432,019
Grant Disbursement	1,389,808		-	-		1,389,808
Insurance	9,250		4,420	-		13,670
Occupancy	-		30,000	-		30,000
Office	-		18,282	-		18,282
Postage and Delivery	2,434		1,460	973		4,867
Professional Fees	30,000		65,000	40,022		135,022
Telephone and Utilities	-		40,736	-		40,736
Travel	 145,303			 22,112		<u> 167,415</u>
Total Expenses	\$ 2,278,412	\$	290,137	\$ 325,794	\$	2,894,343

STATEMENT OF FUNCTIONAL EXPENSES

	Program <u>Services</u>	Management and General	Fundraising and Development	<u>Total</u>
Salaries and Wages	\$ 221,305	\$ 35,765	\$ 17,922	\$ 274,992
Employee Benefits	28,514	4,715	2,368	35,597
Payroll Taxes	20,569	3,326	1,670	25,565
Total Personnel	270,388	43,806	21,960	336,154
Advertising and Promotion	24,583	6,470	1,300	32,353
Bank Fees	-	17,893	-	17,893
Consultants	86,738	45,738	97,234	229,710
Dues and Fees	-	10,576	-	10,576
Event Expenses	161,338	-	69,151	230,489
Grant Disbursement	1,280,391	-	-	1,280,391
Insurance	-	789	-	789
Occupancy	-	30,000	-	30,000
Office	14	29,811	-	29,825
Postage and Delivery	5,324	3,174	2,192	10,690
Professional Fees	127,051	57,751	52,938	237,740
Telephone and Utilities	-	26,253	-	26,253
Travel	145,485		21,121	166,606
Total Expenses	\$ 2.101.312	\$ 272.261	\$ 265.896	\$ 2.639.469

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2013 2012

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash Received from Contributions and Program Activities Cash Paid to Grantees, Suppliers, and Employees Interest and Dividends Received Interest Paid Income Taxes Paid	(2,809,452) 6,100	(2,695,667)
Net Cash Provided by (Used in) Operating Activities Cash Flows from Investing Activities:	619,650	314,071
Purchases of Securities Proceeds from Sale of Securities		
Net Cash Provided by (Used in) Investing Activities	474,742	(275,195)
Net Increase in Cash and Cash Equivalents	1,094,392	38,876
Cash and Cash Equivalents, July 1	2,174,292	2,135,416
Cash and Cash Equivalents, June 30	\$ 3,268,684	\$ 2,174,292

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2013 2012 Reconciliation of Change in Net Assets to Net Cash Provided by (Used in) Operating Activities Change in Net Assets......\$ 304,740 \$ 480,003 Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities: Unrealized (Gain) Loss on Investments..... (1,362)1,647 (Increase) Decrease in Operating Assets Pledges Receivable..... 231,381 (111,381)Prepaid Expenses..... (3,247)2,717 Deposits..... (400)**Increase (Decrease) in Operating Liabilities** Accounts Payable and Accrued Expenses..... 88,138 (58,515)(165,932) Net Cash Provided by (Used in)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

Note 1. Nature of Activities

Happy Hearts Fund, Inc. ("HHF") is a not-for-profit charitable organization incorporated on June 12, 2006 in the State of Delaware, with its headquarters in New York City. HHF's mission is to aid children around the world who suffer hardship as a result of natural, economic, and health-related disasters. HHF actively partners with grassroots organizations to develop long-term educational, medical, and emotional support for children.

Note 2. Summary of Significant Accounting Policies

Basis of Financial Statement Presentation:

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of HHF and changes therein are classified and reported as follows:

<u>Unrestricted net assets</u> - Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the board of directors or may otherwise be limited by contractual agreements with outside parties.

<u>Temporarily restricted net assets</u> - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of HHF and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions.

<u>Permanently restricted net assets</u> - Net assets subject to donor-imposed stipulations that they be maintained permanently by HHF. Generally, the donors of these assets permit the donee to use all or part of the income earned on any related investment for general or specific purposes. There were no permanently restricted net assets at June 30, 2013 and 2012.

Contributions:

Contributions, including unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are to be received.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

Note 2. Summary of Significant Accounting Policies (Cont'd)

Promises to Give:

Contributions are recognized when the donor makes a promise to give to HHF 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 contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

HHF uses the allowance method to determine uncollectible unconditional pledges receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. Management determined that no allowance was necessary at June 30, 2013 and 2012.

Donated Services:

Donated services are recognized as contributions in accordance with standards established by the Financial Accounting Standards Board, if the services create or enhance new financial assets or require specialized skills, are performed by people with those skills, and would otherwise be purchased by HHF. Volunteers also provide a variety of services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria were not met.

Donated Property and Equipment:

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support 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, HHF reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. HHF reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Cash Equivalents:

For purposes of the Statements of Cash Flows, HHF considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

Note 2. Summary of Significant Accounting Policies (Cont'd)

Investments:

HHF reports investments at fair market value. The market value of the investments is based on publicly quoted market prices. The cost of investments sold, if any, is determined on the average cost basis. Interest, dividends, and change in value of investments are included in the Statements of Activities.

Income Taxes:

HHF is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, HHF qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

As of and during the years ended June 30, 2013 and 2012, HHF did not have a liability for any unrecognized tax benefits. HHF recognizes interest and penalties, if any, related to unrecognized tax benefits as income tax expense in the Statement of Functional Expenses. HHF did not incur any interest or penalties during the years ended June 30, 2013 and 2012.

HHF is subject to routine audits by taxing jurisdictions. There are currently no such audits for any tax period in progress. Management believes HHF is no longer subject to income tax examinations for years prior to 2010.

Management's Use of Estimates and Assumptions:

Management uses estimates and assumptions in preparing its financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Advertising Costs:

Advertising costs are expensed when incurred. Advertising costs for the years ended June 30, 2013 and 2012 were \$28,971 and \$32,353, respectively.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

Note 2. Summary of Significant Accounting Policies (Cont'd)

Credit Risk Concentrations:

HHF's cash and cash equivalent accounts and interest bearing deposits in banks and other financial institutions may at times exceed the federally insured limits. HHF has not experienced any losses in these accounts. Management believes that HHF is not exposed to any significant risk on these deposits.

Functional Expenses:

Expenses are charged to the program based on direct expenditures incurred. Any expenditure not directly chargeable has been allocated between program and supporting services classifications on the basis of time records and estimates made by the management of HHF.

Compensated Absences:

Employees of HHF are entitled to paid vacations, paid sick days, and personal days off, depending on job classification, length of service, and other factors. It is impractical to estimate the amount of compensation for future absences, and accordingly, no liability has been recorded in the accompanying financial statements. HHF's policy is to recognize the cost of compensated absences when actually paid to employees.

Date of Management Evaluation of Subsequent Events:

Management has evaluated subsequent events through February 10, 2014, the date on which the financial statements were available to be issued.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

Note 3. Investments

Investments are presented in the financial statements at their quoted fair value. The securities are composed of various shares of fixed income and corporate stock. The basis to HHF is the purchase price or fair value of the security at the date of donation. The maturity date of the certificate of deposit held at June 30, 2013 is October 10, 2013.

The cost or other basis, fair value, and unrealized gain at June 30, 2013 and 2012 are as follows:

June 30, 2013

	<u>Basis</u>	Fair <u>value</u>	Unrealized <u>gain</u>
Corporate stock Certificates of deposit Mutual funds	\$ 6,378 100,000 <u>6,154</u>	\$ 7,184 100,003 <u>8,706</u>	\$ 806 3 <u>2,552</u>
Total	<u>\$112,532</u>	<u>\$115,893</u>	<u>\$ 3,361</u>

June 30, 2012

	<u>Basis</u>	Fair <u>value</u>	Unrealized <u>gain</u>
Corporate stock Certificates of deposit Mutual funds	\$ 6,378 575,077 6,154	\$ 6,592 575,122 7,559	\$ 214 45 <u>1,405</u>
Total	<u>\$587,609</u>	<u>\$589,273</u>	<u>\$ 1,664</u>

NOTES TO FINANCIAL STATEMENTS (CONT'D)

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

Note 4. Lease Obligations

HHF entered into an operating lease for its office facilities under a lease which will expire on January 31, 2014. Rent expense for the years ended June 30, 2013 and 2012 was \$30,000 and \$30,000, respectively. Minimum future lease obligations under this lease are as follows:

Year ended June 30,	<u>Amount</u>
2014 2015 and thereafter	\$ 17,500
	<u>\$ 17,500</u>

Note 5. Related Parties

During each of the years ended June 30, 2013 and 2012, a relative of the President of HHF received compensation for services rendered totaling \$60,000. Compensation rates paid were equivalent to those paid to unrelated third parties at the going market rate.

Note 6. Pledges Receivable

Pledges receivable consist of the following:

	<u>2013</u>	<u>2012</u>
Unconditional promises to give	<u>\$110,000</u>	<u>\$341,381</u>
Amounts due in: Less than one year One to five years	\$ 60,000 50,000	\$241,381
	<u>\$110,000</u>	<u>\$341,381</u>

Unconditional promises to give are not discounted; the discount would be insignificant. Based on prior year collections and collections subsequent to year-end, no provision was made for uncollectible amounts.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

Note 7. Restrictions on Net Assets

Temporarily restricted net assets are time restricted and are available for the following purpose:

	<u>2013</u>	<u>2012</u>
Unrestricted promises to give	<u>\$100,000</u>	<u>\$150,000</u>
Net assets were released from time restriction as follows:		
	<u>2013</u>	<u>2012</u>
Unrestricted promises to give	<u>\$ 50,000</u>	<u>\$ 25,000</u>

Note 8. Donated Services

The fair value of donated services included as contributions in the financial statements are as follows:

June 30, 2013

00110 00, 2010						
	Program services	Management and <u>general</u>	Fundraising and development	<u>Total</u>		
Legal expensesAirline tickets	\$ 30,000 <u>57,171</u>	\$ 40,000 	\$ 30,000 	\$100,000 <u>57,171</u>		
	<u>\$ 87,171</u>	<u>\$ 40,000</u>	<u>\$ 30,000</u>	<u>\$157,171</u>		
<u>June 30, 2012</u>						
	Program services	Management and <u>general</u>	Fundraising and development	<u>Total</u>		

\$ 63,000

\$210,000

NOTES TO FINANCIAL STATEMENTS (CONT'D)

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

Note 9. Fair Value Measurements

HHF's investments are reported at fair value in the accompanying Statements of Financial Position. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values.

Furthermore, although HHF believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurements at the reporting date.

	<u>Fair value measurements using</u>		
	Fair <u>value</u>	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)
June 30, 2013			
Corporate stock Certificates of deposit Mutual funds Total	\$ 7,184 100,003 8,706 \$115,893	\$ 7,184 - 8,706 \$ 15,890	\$ - 100,003
June 30, 2012			
Corporate stock Certificates of deposit Mutual funds	\$ 6,592 575,122 7,559	\$ 6,592 - <u>7,559</u>	\$ - 575,122
Total	<u>\$589,273</u>	<u>\$ 14,151</u>	<u>\$575,122</u>

The fair value measurements accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of quoted prices in active or non-active markets for similar assets, and Level 3 inputs have the lowest priority. HHF uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, HHF measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. No Level 3 inputs were used by HHF.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

Note 9. Fair Value Measurements (Cont'd)

Level 1 Fair Value Measurements

The fair value of the investments is based on quoted net asset values and stock prices of the shares held by HHF at year-end.

Level 2 Fair Value Measurements

The fair value of the investments is based on quoted net asset values and market prices in active markets for similar assets.

Note 10. Joint Costs

HHF achieves some of its programmatic goals in an annual gala that includes requests for contributions. The costs of conducting those campaigns totaled \$432,019 and \$230,489 for the years ended June 30, 2013 and 2012, respectively. Those joint costs were allocated as follows:

	<u>2013</u>	<u>2012</u>
ProgramFundraising	\$302,413 129,606	\$161,338 <u>69,151</u>
Total	\$432.019	\$230.489