

HAPPY HEARTS FUND, INC.
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014 AND 2013

HAPPY HEARTS FUND, INC.

YEARS ENDED JUNE 30, 2014 AND 2013

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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, 2014 and 2013, 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, 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.

Klatzkin & Company, LLP

KLATZKIN & COMPANY_{LLP}

Hamilton, New Jersey
February 12, 2015

HAPPY HEARTS FUND, INC.
STATEMENTS OF FINANCIAL POSITION

	June 30,	
	<u>2014</u>	<u>2013</u>
ASSETS		
<u>Current Assets</u>		
Cash and Cash Equivalents.....	\$ 1,930,533	\$ 3,268,684
Pledges Receivable.....	1,409,054	60,000
Other Receivables.....	11,093	-
Short Term Investments.....	500,057	100,003
Prepaid Expenses.....	6,417	4,886
Deposits.....	<u>7,250</u>	<u>5,000</u>
Total Current Assets.....	3,864,404	3,438,573
Property and Equipment, Net of Accumulated		
Depreciation of \$874 and \$ -0-.....	6,793	-
<u>Other Assets</u>		
Pledges Receivable, Long Term.....	-	50,000
Long Term Investments.....	<u>20,120</u>	<u>15,890</u>
TOTAL ASSETS.....	<u>\$ 3,891,317</u>	<u>\$ 3,504,463</u>
LIABILITIES AND NET ASSETS		
<u>Current Liabilities</u>		
Accounts Payable and Accrued Expenses.....	<u>\$ 282,844</u>	<u>\$ 132,481</u>
<u>Net Assets</u>		
Unrestricted.....	3,533,473	3,271,982
Temporarily Restricted.....	75,000	100,000
Permanently Restricted.....	<u>-</u>	<u>-</u>
Total Net Assets.....	<u>3,608,473</u>	<u>3,371,982</u>
TOTAL LIABILITIES AND NET ASSETS.....	<u>\$ 3,891,317</u>	<u>\$ 3,504,463</u>

The accompanying notes are an integral part of these financial statements.

HAPPY HEARTS FUND, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>Public Support and Revenues</u>				
General Contributions.....	\$ 3,153,553	\$ -	\$ -	\$ 3,153,553
Contributed Services.....	186,935	-	-	186,935
Interest and Dividends.....	5,533	-	-	5,533
Net Assets Released from Restrictions.....	<u>25,000</u>	<u>(25,000)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue.....	<u>3,371,021</u>	<u>(25,000)</u>	<u>-</u>	<u>3,346,021</u>
<u>Expenses</u>				
Program Services.....	2,525,483	-	-	2,525,483
Management and General.....	298,938	-	-	298,938
Fundraising and Development.....	<u>286,758</u>	<u>-</u>	<u>-</u>	<u>286,758</u>
Total Expenses.....	<u>3,111,179</u>	<u>-</u>	<u>-</u>	<u>3,111,179</u>
Change in Net Assets Before Unrealized				
Gain (Loss) on Investments.....	259,842	(25,000)	-	234,842
Unrealized Gain (Loss) on Investments.....	<u>1,649</u>	<u>-</u>	<u>-</u>	<u>1,649</u>
Change in Net Assets.....	261,491	(25,000)	-	236,491
Net Assets, July 1.....	<u>3,271,982</u>	<u>100,000</u>	<u>-</u>	<u>3,371,982</u>
Net Assets, June 30.....	<u>\$ 3,533,473</u>	<u>\$ 75,000</u>	<u>\$ -</u>	<u>\$ 3,608,473</u>

The accompanying notes are an integral part of these financial statements.

HAPPY HEARTS FUND, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2013

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

The accompanying notes are an integral part of these financial statements.

HAPPY HEARTS FUND, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2014

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising and Development</u>	<u>Total</u>
Salaries and Wages.....	\$ 167,042	\$ 35,789	\$ 43,972	\$ 246,803
Employee Benefits.....	48,547	10,401	12,780	71,728
Payroll Taxes.....	<u>13,583</u>	<u>2,910</u>	<u>3,576</u>	<u>20,069</u>
Total Personnel.....	229,172	49,100	60,328	338,600
Advertising and Promotion.....	25,401	2,209	-	27,610
Bank Fees.....	6,619	9,928	-	16,547
Consultants.....	98,269	45,704	46,803	190,776
Depreciation.....	-	874	-	874
Dues and Fees.....	-	8,392	-	8,392
Event Expenses.....	254,389	-	109,024	363,413
Grant Disbursement.....	1,735,489	-	-	1,735,489
Insurance.....	8,611	3,690	-	12,301
Occupancy.....	-	32,000	-	32,000
Office.....	-	33,843	-	33,843
Postage and Delivery.....	2,292	1,376	917	4,585
Professional Fees.....	45,787	86,548	51,836	184,171
Telephone and Utilities.....	-	25,274	-	25,274
Travel.....	<u>119,454</u>	<u>-</u>	<u>17,850</u>	<u>137,304</u>
Total Expenses.....	<u>\$ 2,525,483</u>	<u>\$ 298,938</u>	<u>\$ 286,758</u>	<u>\$ 3,111,179</u>

The accompanying notes are an integral part of these financial statements.

HAPPY HEARTS FUND, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2013

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising and Development</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.....	<u>19,599</u>	<u>3,288</u>	<u>1,644</u>	<u>24,531</u>
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.....	<u>145,303</u>	<u>-</u>	<u>22,112</u>	<u>167,415</u>
Total Expenses.....	<u>\$ 2,278,412</u>	<u>\$ 290,137</u>	<u>\$ 325,794</u>	<u>\$ 2,894,343</u>

The accompanying notes are an integral part of these financial statements.

HAPPY HEARTS FUND, INC.

STATEMENTS OF CASH FLOWS

	Years Ended	
	June 30,	
	<u>2014</u>	<u>2013</u>
Increase (Decrease) in Cash and Cash Equivalents		
Cash Flows from Operating Activities:		
Cash Received from Contributions and Program Activities.....	\$ 2,030,341	\$ 3,423,002
Cash Paid to Grantees, Suppliers, and Employees.....	(2,963,723)	(2,809,452)
Interest and Dividends Received.....	5,533	6,100
Interest Paid.....	-	-
Income Taxes Paid.....	-	-
	<u> </u>	<u> </u>
Net Cash Provided by (Used in)		
Operating Activities.....	<u>(927,849)</u>	<u>619,650</u>
Cash Flows from Investing Activities:		
Purchase of Property and Equipment.....	(7,667)	-
Purchases of Securities.....	(902,635)	(1,675,188)
Proceeds from Sale of Securities.....	<u>500,000</u>	<u>2,149,930</u>
	<u> </u>	<u> </u>
Net Cash Provided by (Used in)		
Investing Activities.....	<u>(410,302)</u>	<u>474,742</u>
Net (Decrease) Increase in Cash and Cash Equivalents.....	(1,338,151)	1,094,392
Cash and Cash Equivalents, July 1.....	<u>3,268,684</u>	<u>2,174,292</u>
Cash and Cash Equivalents, June 30.....	<u>\$ 1,930,533</u>	<u>\$ 3,268,684</u>

The accompanying notes are an integral part of these financial statements.

HAPPY HEARTS FUND, INC.

STATEMENTS OF CASH FLOWS

	Years Ended June 30,	
	<u>2014</u>	<u>2013</u>
Reconciliation of Change in Net Assets to Net Cash Provided by (Used in) Operating Activities		
Change in Net Assets.....	\$ 236,491	\$ 304,740
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Depreciation.....	874	-
Unrealized (Gain) Loss on Investments.....	(1,649)	(1,362)
(Increase) Decrease in Operating Assets		
Pledges Receivable.....	(1,299,054)	231,381
Other Receivables.....	(11,093)	-
Prepaid Expenses.....	(1,531)	(3,247)
Deposits.....	(2,250)	-
Increase (Decrease) in Operating Liabilities		
Accounts Payable and Accrued Expenses.....	<u>150,363</u>	<u>88,138</u>
Total Adjustments.....	<u>(1,164,340)</u>	<u>314,910</u>
Net Cash Provided by (Used in) Operating Activities.....	<u>\$ (927,849)</u>	<u>\$ 619,650</u>

The accompanying notes are an integral part of these financial statements.

HAPPY HEARTS FUND, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

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 rebuilds safe-resilient schools in areas impacted by natural disasters. HHF works during the gap period when children are forgotten after emergency response is complete, bringing hope and empowerment to generations of children and entire communities.

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:

Unrestricted net assets - 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.

Temporarily restricted net assets - 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.

Permanently restricted net assets - 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, 2014 and 2013.

HAPPY HEARTS FUND, INC.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

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

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.

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, 2014 and 2013.

Property and Equipment:

Property and equipment are stated at cost or fair market value at the dates of donation. Expenditures for maintenance and repairs are charged to operating expenses. Additions to property and equipment or expenditures which increase the useful lives of the assets are capitalized. Additions with a cost or fair value of less than \$1,000 are expensed. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets. When property and equipment are sold or otherwise disposed of, the asset account and related accumulated depreciation accounts are relieved, and any gain or loss is included in operations.

HAPPY HEARTS FUND, INC.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

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

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.

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.

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, except bank certificates of deposit and treasury obligations, to be cash equivalents. Bank certificates of deposit and treasury obligations are considered to be temporary cash investments, not cash equivalents.

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).

HAPPY HEARTS FUND, INC.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

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

Income Taxes (Cont'd):

As of and during the years ended June 30, 2014 and 2013, 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 Statements of Functional Expenses. HHF did not incur any interest or penalties during the years ended June 30, 2014 and 2013.

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 2011.

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, 2014 and 2013 were \$27,610 and \$28,971, respectively.

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.

HAPPY HEARTS FUND, INC.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

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

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 12, 2015, the date on which the financial statements were available to be issued.

Note 3. Pledges Receivable

Pledges receivable consist of the following:

	<u>2014</u>	<u>2013</u>
Unconditional promises to give	<u>\$1,409,054</u>	<u>\$110,000</u>
Amounts due in:		
Less than one year	\$1,409,054	\$ 60,000
One to five years.....	_____ -	_____ 50,000
	<u>\$1,409,054</u>	<u>\$110,000</u>

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

HAPPY HEARTS FUND, INC.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

Note 4. 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 dates of the certificates of deposit held at June 30, 2014 range from July 2014 to December 2014.

The cost or other basis, fair value, and unrealized gain at June 30, 2014 and 2013 are as follows:

	<u>June 30, 2014</u>		
	<u>Basis</u>	<u>Fair value</u>	<u>Unrealized gain</u>
Certificates of deposit	\$500,023	\$500,057	\$ 34
Corporate stock	6,378	9,650	3,272
Mutual funds	<u>8,766</u>	<u>10,470</u>	<u>1,704</u>
Total.....	<u>\$515,167</u>	<u>\$520,177</u>	<u>\$ 5,010</u>

	<u>June 30, 2013</u>		
	<u>Basis</u>	<u>Fair value</u>	<u>Unrealized gain</u>
Certificates of deposit	\$100,000	\$100,003	\$ 3
Corporate stock	6,378	7,184	806
Mutual funds	<u>6,154</u>	<u>8,706</u>	<u>2,552</u>
Total.....	<u>\$112,532</u>	<u>\$115,893</u>	<u>\$ 3,361</u>

HAPPY HEARTS FUND, INC.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

Note 5. 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>	
	<u>Fair value</u>	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)
<u>June 30, 2014</u>			
Certificates of deposit	\$500,057	\$ -	\$500,057
Corporate stock	9,650	9,650	-
Mutual funds	<u>10,470</u>	<u>10,470</u>	<u>-</u>
Total.....	<u>\$520,177</u>	<u>\$ 20,120</u>	<u>\$500,057</u>
<u>June 30, 2013</u>			
Certificates of deposit	\$100,003	\$ -	\$100,003
Corporate stock	7,184	7,184	-
Mutual funds	<u>8,706</u>	<u>8,706</u>	<u>-</u>
Total.....	<u>\$115,893</u>	<u>\$ 15,890</u>	<u>\$100,003</u>

HAPPY HEARTS FUND, INC.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

Note 5. Fair Value Measurements (Cont'd)

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.

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 6. Property and Equipment

Property and equipment consist of the following:

	<u>Estimated useful lives in years</u>	<u>2014</u>	<u>2013</u>
Equipment	5	\$ 7,667	\$ -
Accumulated depreciation		<u>874</u>	<u>-</u>
		<u>\$ 6,793</u>	<u>\$ -</u>

Depreciation expense charged to operations was \$874 and \$-0- for the years ended June 30, 2014 and 2013, respectively.

HAPPY HEARTS FUND, INC.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

Note 7. Lease Obligations

HHF entered into an operating lease for its office facilities under a lease which will expire on September 30, 2014. Rent expense for the years ended June 30, 2014 and 2013 was \$32,000 and \$30,000, respectively. Minimum future lease obligations under this lease are as follows:

<u>Year ended June 30,</u>	<u>Amount</u>
2015	\$ 8,700
2016 and thereafter	_____ -
	<u>\$ 8,700</u>

Note 8. Related Parties

During the years ended June 30, 2014 and 2013, a relative of the President of HHF received compensation for services rendered totaling \$66,966 and \$60,000, respectively. Compensation rates paid were equivalent to those paid to unrelated third parties at the going market rate.

Note 9. Restrictions on Net Assets

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

	<u>2014</u>	<u>2013</u>
Promises to give	<u>\$ 75,000</u>	<u>\$100,000</u>

Net assets were released from time restrictions as follows:

	<u>2014</u>	<u>2013</u>
Unrestricted promises to give	<u>\$ 25,000</u>	<u>\$ 50,000</u>

HAPPY HEARTS FUND, INC.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

Note 10. Donated Services

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

Year ended June 30, 2014

	<u>Program services</u>	<u>Management and general</u>	<u>Fundraising and development</u>	<u>Total</u>
Legal expenses.....	\$ 45,000	\$ 60,000	\$ 45,000	\$150,000
Airline tickets.....	<u>32,133</u>	<u>-</u>	<u>4,802</u>	<u>36,935</u>
	<u>\$ 77,133</u>	<u>\$ 60,000</u>	<u>\$ 49,802</u>	<u>\$186,935</u>

Year ended June 30, 2013

	<u>Program services</u>	<u>Management and general</u>	<u>Fundraising and development</u>	<u>Total</u>
Legal expenses.....	\$ 30,000	\$ 40,000	\$ 30,000	\$100,000
Airline tickets.....	<u>57,171</u>	<u>-</u>	<u>-</u>	<u>57,171</u>
	<u>\$ 87,171</u>	<u>\$ 40,000</u>	<u>\$ 30,000</u>	<u>\$157,171</u>

Note 11. 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 \$363,413 and \$432,019 for the years ended June 30, 2014 and 2013, respectively. Those joint costs were allocated as follows:

	<u>2014</u>	<u>2013</u>
Program services.....	\$254,389	\$302,413
Fundraising and development.....	<u>109,024</u>	<u>129,606</u>
Total.....	<u>\$363,413</u>	<u>\$432,019</u>

HAPPY HEARTS FUND, INC.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

Note 12. Commitments

HHF has entered into an agreement with a Foundation in the Philippines to assist in funding the building of disaster-resistant classrooms in typhoon affected areas. HHF has committed to a contribution of \$200,000. An initial payment of \$100,000 was due upon execution of the agreement and has been recorded as a liability at June 30, 2014. The remaining balance of \$100,000 is due upon project completion and has not been recorded as a liability since it is a conditional promise to give.

Note 13. Financial Statement Presentation

Certain amounts in the 2013 financial statements have been reclassified to conform to the 2014 presentation. Such reclassifications have no effect on the previously reported change in net assets.