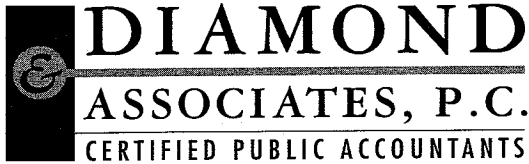

HAPPY HEARTS FUND, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

HAPPY HEARTS FUND, INC.

YEARS ENDED DECEMBER 31, 2010 AND 2009

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INDEPENDENT AUDITOR'S REPORT

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To the Board of Directors
Happy Hearts Fund, Inc.

We have audited the accompanying statements of financial position of **Happy Hearts Fund, Inc.** ("HHF") as of December 31, 2010 and 2009, and the related statements of activities, changes in net assets, cash flows, and functional expenses for the years then ended. These financial statements are the responsibility of HHF's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HHF at December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principals generally accepted in the United States of America.

Diamond & Associates, P.C.

August 12, 2011

HAPPY HEARTS FUND, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
<u>ASSETS</u>		
Cash and Cash Equivalents.....	\$ 1,640,630	\$ 2,271,329
Contributions Receivable.....	612,770	-
Investments (Note 3).....	914,646	5,220
Prepaid Expenses.....	4,474	2,300
Deposits.....	<u>4,600</u>	<u>4,600</u>
Total Assets.....	<u>\$ 3,177,120</u>	<u>\$ 2,283,449</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Liabilities		
Accounts Payable and Accrued Expenses.....	\$ 103,781	\$ 108,341
Total Liabilities.....	<u>103,781</u>	<u>108,341</u>
Net Assets		
Unrestricted.....	2,818,339	2,175,108
Temporarily Restricted.....	255,000	-
Permanently Restricted.....	<u>-</u>	<u>-</u>
Total Net Assets.....	<u>3,073,339</u>	<u>2,175,108</u>
Total Liabilities and Net Assets.....	<u>\$ 3,177,120</u>	<u>\$ 2,283,449</u>

The accompanying Notes to Financial Statements
are an integral part of these statements.

HAPPY HEARTS FUND, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Public Support and Revenue		
General Contributions	\$ 1,148,011	\$ 143,575
Contributions from Events	1,149,017	2,500
Contributed Services	95,000	118,000
Interest and Dividends	<u>10,118</u>	<u>18,341</u>
 Total Support and Revenue	 <u>2,402,146</u>	 <u>282,416</u>
Expenses		
Program Services	1,187,562	1,065,782
Management and General	209,950	196,559
Fundraising	<u>107,908</u>	<u>27,610</u>
 Total Expenses	 <u>1,505,420</u>	 <u>1,289,951</u>
Increase (Decrease) in Unrestricted Net Assets before		
Unrealized Gain on Investments	896,726	(1,007,535)
Unrealized Gain on Investments	<u>1,505</u>	<u>1,534</u>
 Change in Unrestricted Net Assets	 <u>\$ 898,231</u>	 <u>\$(1,006,001)</u>

The accompanying Notes to Financial Statements
are an integral part of these statements.

HAPPY HEARTS FUND, INC.

STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>Net Asset Classifications</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net Assets, as Originally Stated, January 1, 2009	\$ 3,847,297	\$ -	\$ -	\$ 3,847,297
Prior Period Adjustment.....	<u>(666,188)</u>	<u>-</u>	<u>-</u>	<u>(666,188)</u>
Net Assets, Beginning - as Restated	3,181,109	-	-	3,181,109
Change in Net Assets	<u>(1,006,001)</u>	<u>-</u>	<u>-</u>	<u>(1,006,001)</u>
Net Assets, December 31, 2009	2,175,108	-	-	2,175,108
Change in Net Assets	<u>643,231</u>	<u>255,000</u>	<u>-</u>	<u>898,231</u>
Net Assets, December 31, 2010	<u>\$ 2,818,339</u>	<u>\$ 255,000</u>	<u>\$ -</u>	<u>\$ 3,073,339</u>

The accompanying Notes to Financial Statements
are an integral part of these statements.

HAPPY HEARTS FUND, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Cash Flows from Operating Activities		
Cash Received from Contributions and Program Activities	\$ 1,678,104	\$ 643,889
Cash Paid to Grantees, Suppliers, and Employees	(1,417,154)	(1,620,542)
Interest and Dividends Received	<u>10,118</u>	<u>18,341</u>
Net Cash Provided (Used) by Operating Activities	<u>271,068</u>	<u>(958,312)</u>
Cash Flows from Investing Activities		
Purchase of Investments, Net	<u>(901,767)</u>	<u>-</u>
Net Cash Used by Investing Activities	<u>(901,767)</u>	<u>-</u>
Cash Flows from Financing Activities	<u>-</u>	<u>-</u>
Net Decrease in Cash and Cash Equivalents	(630,699)	(958,312)
Cash and Cash Equivalents, Beginning	<u>2,271,329</u>	<u>3,229,641</u>
Cash and Cash Equivalents, Ending	<u>\$ 1,640,630</u>	<u>\$ 2,271,329</u>
 Reconciliation of Change in Net Assets to Net Cash Used by Operating Activities		
Change in Net Assets	<u>\$ 898,231</u>	<u>\$(1,006,001)</u>
 Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities		
Unrealized Gain on Investments	(1,505)	(1,534)
Other Non-Cash Items	(6,154)	(3,686)
(Increase) Decrease in Operating Assets		
Accounts Receivable	(612,770)	501,500
Deposits	-	(4,600)
Prepaid Expenses	(2,174)	5,700
Increase (Decrease) in Operating Liabilities		
Accrued Expenses	(4,560)	34,609
Grants Payable	<u>-</u>	<u>(484,300)</u>
Total Adjustments	<u>(627,163)</u>	<u>47,689</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 271,068</u>	<u>\$ (958,312)</u>
 Supplemental Schedule of Cash Flow Data - Non-Cash Activity		
Donated Common Stock	<u>\$ 6,154</u>	<u>\$ 3,686</u>

The accompanying Notes to Financial Statements
are an integral part of these statements.

HAPPY HEARTS FUND, INC.

STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2010
(with Comparative Totals for the Year Ended December 31, 2009)

	2010				2009
	<u>Program Services</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>Total</u>	<u>Total</u>
Salaries and Wages.....	\$ 196,927	\$ 14,510	\$ 14,509	\$ 225,946	\$ 119,385
Employee Benefits.....	16,087	1,186	1,185	18,458	22,263
Payroll Taxes.....	19,195	1,415	1,414	22,024	11,788
Total Personnel.....	<u>232,209</u>	<u>17,111</u>	<u>17,108</u>	<u>266,428</u>	<u>153,436</u>
Advertising and Promotion.....	38,590	9,648	-	48,238	86,964
Bank Charges.....	-	8,122	-	8,122	11,446
Consultants.....	124,213	40,609	11,700	176,522	155,084
Dues and Fees.....	-	10,836	-	10,836	4,342
Event Expenses.....	184,535	-	79,100	263,635	-
Grant Disbursement.....	422,152	-	-	422,152	637,048
Insurance.....	-	1,987	-	1,987	1,115
Miscellaneous.....	-	-	-	-	513
Occupancy.....	-	28,589	-	28,589	15,883
Office.....	-	24,473	-	24,473	13,057
Postage and Delivery.....	-	11,775	-	11,775	4,597
Professional Fees.....	71,560	30,668	-	102,228	135,662
Telephone and Utilities.....	-	13,432	-	13,432	8,374
Travel.....	<u>114,303</u>	<u>12,700</u>	<u>-</u>	<u>127,003</u>	<u>62,430</u>
Total Functional Expenses	<u>\$ 1,187,562</u>	<u>\$ 209,950</u>	<u>\$ 107,908</u>	<u>\$ 1,505,420</u>	<u>\$ 1,289,951</u>

The accompanying Notes to Financial Statements
are an integral part of these statements.

HAPPY HEARTS FUND, INC.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

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 and maintains 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 Presentation

The 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 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 assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. There were no temporarily restricted net assets at year-end.

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 HHF 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 year-end.

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 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 the Organization 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.

HAPPY HEARTS FUND, INC.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Organization uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

Donated Services

Donated services are recognized as contributions in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, 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 the Organization. Volunteers also provide a variety of services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria under SFAS No. 116 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, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Cash Equivalents

For purposes of the Statement of Cash Flows, HHF considers all cash and other highly liquid investments with initial maturities of three months or less to be 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 statement of activities.

Income Taxes

HHF is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. 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).

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Actual results could differ from those estimates.

HAPPY HEARTS FUND, INC.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentration of Credit Risk

HHF's financial instruments that are potentially exposed to concentrations of credit risk consist primarily of cash, cash equivalents, investments and contributions receivable. HHF places its cash and cash equivalents with what it believes to be quality financial institutions. At times, during the year, cash and investment balances exceeded the FDIC and SIPC insurance limits. Cash and investments not secured by the SIPC at December 31, 2010 are approximately \$2,055,276. HHF routinely assesses the financial strength of its cash, cash equivalents and investments. As a consequence, HHF believes no significant concentration of credit exists with respect to its cash, cash equivalents and investments.

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 on estimates made by the management of HHF.

Compensated Absences

Compensated absences have not been accrued because the amount cannot be reasonably estimated.

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2009, from which the summarized information was derived.

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 the Organization is the fair value of the security at the date of donation or purchase.

The cost or other basis, fair value, and unrealized gain at December 31, 2010 are as follows:

	<u>Basis</u>	<u>Fair Value</u>	<u>Unrealized Gain</u>
Municipal Bonds.....	\$ 100,604	\$ 100,746	\$ 142
Corporate Stock.....	6,378	6,960	582
Certificates of Deposit.....	800,005	800,083	78
Mutual Funds	<u>6,154</u>	<u>6,857</u>	<u>703</u>
Total.....	<u>\$ 913,141</u>	<u>\$ 914,646</u>	<u>\$ 1,505</u>

HAPPY HEARTS FUND, INC.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE 4. LEASE OBLIGATIONS

HHF entered into an operating lease for its office facilities under a lease, which will expire on May 31, 2012. Rent expense for the period ended December 31, 2010 and 2009 was \$ 28,152 and \$15,257, respectively. Minimum future lease obligations under this lease are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2011	\$ 28,925
2012	<u>12,200</u>
	<u>\$ 41,125</u>

NOTE 5. CONSULTING SERVICES

HHF had signed an agreement with a company to provide management services for \$10,000 per month plus administrative expenses through December 31, 2010, and \$11,000 per month plus administrative expenses through December 31, 2013.

NOTE 6. RELATED PARTIES

During 2010 and 2009, a relative of the President of HHF received compensation for services rendered totaling \$44,423 and \$36,692, respectively. Compensation rates paid were equivalent to those paid to unrelated third parties at going market rate.

NOTE 7. RECENT ACCOUNTING PRONOUNCEMENTS

In August 2008, the Financial Accounting Standards Board (FASB) issued a staff position entitled FAS 117-1, *Endowment of Not-for Profit Organizations: Net Asset Classification of Funds* subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and enhanced Disclosures for all Endowment Funds.

This FASB Staff Position (FSP) provides guidance on the net asset classification of *donor-restricted endowment funds* for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). UPMIFA is a model act approved by the Uniform Law Commission (ULC; formerly known as the National Conference of Commissioners on Uniform State Laws) that serves as a guideline for states to use in enacting legislation. This FSP also improves disclosures about an organization's *endowment funds* (both donor-restricted endowment funds and *board-designated funds*), whether or not the organization is subject to UPMIFA. This statement is effective for fiscal years ending after December 15, 2008. HHF is assessing the potential effect of this FSP on its financial statements and it is planning to adopt FAS 117-1.

NOTE 8. PRIOR PERIOD ADJUSTMENT

Net assets at January 1, 2009 have been adjusted by \$666,188 for revenue erroneously recorded in the prior year. The effect of the error was to overstate net income for the year ended December 31, 2008 by \$666,188. The correction has no effect on the results of the current year's activities.

HAPPY HEARTS FUND, INC.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE 9. FAIR VALUE MEASUREMENTS

The Organization's investments are reported at fair value in the accompanying statement 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 the Organization 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 a different fair value measurements at the reporting date.

	<u>Fair Value</u>	<u>Fair Value Measurements Using</u> Quoted Prices to Active Markets for Identical Assets <u>Level 1</u>
Municipal Bonds.....	\$ 100,746	\$ 100,746
Corporate Stock.....	6,960	6,960
Certificates of Deposit.....	800,083	800,083
Mutual Funds.....	<u>6,857</u>	<u>6,857</u>
Total.....	<u>\$ 914,646</u>	<u>\$ 914,646</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, and Level 3 inputs have the lowest priority. The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. No Level 2 or Level 3 inputs were available to the Organization.

Level 1 Fair Value Measurements

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

NOTE 10. SUBSEQUENT EVENTS

Subsequent events were evaluated through August 12, 2011, which is the date the financial statements were available to be issued. There were no subsequent events that would significantly impact the financial statements.