Happy Hands Education Center, Inc.

Financial Statements
and
Independent Auditor's Report

June 30, 2015 and 2014

HAPPY HANDS
EDUCATION CENTER

A Christian school for children with
hearing loss or communication disorders

Contents

Stanfield & O'Dell PC
Beyond numbers. To solutions.
CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

To the Board of Directors
Happy Hands Education Center, Inc.

We have audited the accompanying financial statements of Happy Hands Education Center, Inc. (the "Center"), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities 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.

Auditor's 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 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.

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 Happy Hands Education Center, Inc., as of June 30, 2015 and 2014, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in note G to the financial statements, although the Center has a significant asset base and net assets, its liquidity is dependent upon tuition and contributions from supporters of the Center. Our opinion is not modified with respect to this matter.

Stanfield & O'Dell P.C.

Tulsa, Oklahoma
March 1, 2016

Happy Hands Education Center, Inc.

Statements of Financial Position

June 30,

Assets	2015	2014
Current assets		
Cash	$ 8,761	$ 40,787
Accounts receivable	8,425	7,880
Other assets	610	1,184
Total current assets	17,796	49,851
Property and equipment	7,262,737	7,242,218
Less: accumulated depreciation	(1,347,887)	(1,112,260)
Net property and equipment	5,914,850	6,129,958
Restricted investments		
Program funds	1,192,630	1,249,412
Maintenance funds	1,697,239	1,703,538
	2,889,869	2,952,950
Total assets	$ 8,822,515	$ 9,132,759
Liabilities and Net Assets		
Current liabilities		
Accounts payable	$ 14,482	$ 8,710
Accrued liabilities	44,675	44,647
Total current liabilities	59,157	53,357
Net assets		
Unrestricted	391,810	502,084
Temporarily restricted	8,371,548	8,577,318
Total net assets	8,763,358	9,079,402
Total liabilities and net assets	$ 8,822,515	$ 9,132,759

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

Happy Hands Education Center, Inc.

Statements of Activities

Years Ended June 30,

	2015	2014
Changes in unrestricted net assets		
Support and revenue		
Contributions	$ 239,751	$ 214,974
Fundraising events	94,734	93,962
Tuition	938,367	755,088
Grant income	142,500	40,000
Investment return	19,320	20,254
Net assets released from restriction	394,077	575,003
Total support and revenue	1,828,749	1,699,281
Expenses		
Program services	1,652,641	1,527,229
General and administrative	197,556	179,715
Fundraising	88,826	88,326
Total expenses	1,939,023	1,795,270
Decrease in unrestricted assets	(110,274)	(95,989)
Changes in temporarily restricted net assets		
Restricted contributions	59,242	136,629
Restricted grants	66,394	53,500
Investment return	62,671	403,635
Net assets released	(394,077)	(575,003)
Increase (decrease) in temporarily restricted net assets	(205,770)	18,761
Change in net assets	(316,044)	(77,228)
Net assets at beginning of year	9,079,402	9,156,630
Net assets at end of year	$ 8,763,358	$ 9,079,402

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

Happy Hands Education Center, Inc.

Statements of Expenses by Natural Classification

Years Ended June 30,

	2015			
	Program	General and Administrative	Fundraising	Total
Personnel costs	$ 672,411	$ 98,287	$ 75,725	$ 846,423
Insurance	21,338	2,927	952	25,217
Depreciation	206,882	27,356	1,390	235,628
Supplies	55,633	15,989	6,657	78,279
Financial aid scholarships and allowances	575,077	-	-	575,077
Repairs and maintenance	28,325	3,745	190	32,260
Utilities	34,746	4,595	233	39,574
Professional fees	-	17,100	-	17,100
Other operating expenses	58,229	27,557	3,679	89,465
	$ 1,652,641	$ 197,556	$ 88,826	$ 1,939,023

	2014			
	Program	General and Administrative	Fundraising	Total
Personnel costs	$ 676,587	$ 98,897	$ 76,196	$ 851,680
Insurance	19,778	2,696	734	23,208
Depreciation	209,753	27,736	1,409	238,898
Supplies	43,992	6,943	5,820	56,755
Financial aid scholarships and allowances	490,152	-	-	490,152
Repairs and maintenance	17,729	2,344	119	20,192
Utilities	34,332	4,540	231	39,103
Professional fees	-	15,578	-	15,578
Other operating expenses	34,906	20,981	3,817	59,704
	$ 1,527,229	$ 179,715	$ 88,326	$ 1,795,270

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

Happy Hands Education Center, Inc.

Statements of Cash Flows

Years Ended June 30,

	2015	2014
Cash Flows from Operating Activities		
Change in net assets	$ (316,044)	$ (77,228)
Adjustments to reconcile change in the net assets to net cash provided by (used in) operating activities:		
Depreciation	235,627	238,898
Reinvested investment return	63,081	(153,300)
(Increase) decrease in:		
Accounts receivable	(545)	(2,694)
Other assets	574	(1)
Increase (decrease) in:		
Accounts payable	5,772	(1,509)
Accrued liabilities	28	(25,467)
Net cash used in operating activities	(11,507)	(21,301)
Cash Flows from Investing Activities		
Purchases of fixed assets	(20,519)	(8,347)
Net cash used in investing activities	(20,519)	(8,347)
Net Decrease in Cash and Cash Equivalents	(32,026)	(29,648)
Cash and Cash Equivalents at Beginning of Year	40,787	70,435
Cash and Cash Equivalents at End of Year	$ 8,761	$ 40,787

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

Note A – Summary of Significant Accounting Policies

1. Organization and Mission

Happy Hands Education Center, Inc. (the Center) is a 501(c)(3) Christian developmental center providing Christian based, special educational and linguistic services to infants and children who are deaf or hearing impaired, for ages birth through six years of age, regardless of race, religion, gender, or economic status. The Center derives its support through private donations from the community, tuition, fundraising activities and various grants.

2. Basis of Accounting

The Center's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, utilizing the accrual basis of accounting, whereby revenues are recorded when earned and expenses are recorded when incurred.

3. Financial Statement Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board's requirement to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Net assets of the two restricted classes are created only by donor imposed restrictions on their use. All other net assets, including board-designated or appropriated amounts, are reported as part of the unrestricted class.

As of June 30, 2015 and 2014, there were no permanently restricted net assets.

4. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting period. Actual results could differ from those estimates.

5. Cash and Cash Equivalents

Cash, which includes cash equivalents, includes interest and noninterest bearing deposits due from depository institutions. Cash is held in accounts with a bank that is insured by the Federal Deposit Insurance Corporation (FDIC) in amounts up to $250,000.

Note A – Summary of Significant Accounting Policies - Continued

6. Investments

Investments at June 30, 2015 and 2014 consist of mutual funds and a beneficial interest in funds held at Tulsa Community Foundation. Investments are reported at fair value. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) are included in the statement of activities as increases or decreases in unrestricted net assets or when applicable in temporarily restricted net assets if required by donor restriction.

Separate investment accounts are used specifically to account for certain donations as stipulated by a donor (see note E).

7. Inventory

Inventory is stated at the lower of cost or market.

8. Property, Plant and Equipment

Assets over $1,000 and a useful life of longer than one year are capitalized. Property, plant and equipment are stated at cost, except donated assets, which are stated at their estimated value at date of receipt. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the respective assets as follows: buildings 40 years; building improvements 7 to 10 years; vehicle 5 years; computers and software 3 to 5 years; and office and classroom equipment 3 to 10 years.

9. Accounts Receivable

Accounts receivable consist of amounts due from individuals to cover monthly tuition costs. Accounts receivable are stated at the amount billed for monthly tuition costs less any scholarship given. Accounts receivable are charged-off at the point that management estimates that the amounts will not be collected.

10. Revenue Recognition

Unrestricted donations from individuals, corporations and foundations are recognized as revenue when received. All donations are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a donor restriction expires, that is, when the purpose for which the gift was received has been accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions.

Note A – Summary of Significant Accounting Policies - Continued

10. Revenue Recognition - Continued

In-kind contributions of tangible assets are recorded as contribution revenue at their estimated fair market value. No amounts have been recorded in the accompanying financial statements for donated services since no objective basis is available to measure the value of such services; however, a substantial number of volunteers have donated significant amounts of their time to the Center's program services and to its fundraising campaigns without compensation.

11. Fund Raising Events

Fundraising events are reported net of direct expenses of $46,781 in 2015 and $28,658 in 2014.

12. Functional Expenses

Expenses are classified by a specific program or support service where practical. Expenses not identified with a specific program or support service are allocated based primarily upon management's estimates of staffing time spent in the functions and facility usage.

13. Income Taxes

The Center has been granted an exemption for federal income tax purposes under Section 501(c)(3) of the Internal Revenue Code and has not been classified as a private foundation. Federal Exempt Organization Information or Business Income Tax Returns (Forms 990 and 990T) are subject to examination by the IRS for three years after the date filed.

14. Subsequent Events

Subsequent events have been reviewed through March 1, 2016, the date the statements were available to be issued.

Note B – Investments

The investments at market value at June 30 consisted of the following:

	2015	2014
Mutual funds	$ 2,848,492	2,910,398
TCF pooled funds	41,377	42,552
	$ 2,889,869	$ 2,952,950

Mutual Funds

Mutual funds consist of a Federated Treasury Obligations Fund (a cash fund); fixed income funds, and equity funds. The funds are valued at quoted market prices.

TCF Pooled Funds

The Center established a fund (the Fund) with the Tulsa Community Foundation (TCF). The Center executed an "Agency Fund Agreement" with the Foundation, creating an agency fund. The Board of Trustees of the Foundation shall have the power to modify any restriction or condition on distributions from the Fund for any specific charitable purposes or to specific organizations, if in the sole judgment of the Board of Trustees the restriction or condition becomes, in effect, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs served by the Foundation. All contributions to this fund shall be irrevocable once accepted by the Foundation. Funds contributed by unrelated third parties to the Fund are considered a contribution to TCF. In accordance with Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*, because the Foundation retains variance power over funds held for others, funds contributed by unrelated third-party donors to the Fund are not recorded as a contribution to the Center. The portion of the Fund representing contributions made by donors to TCF was excluded from the Center's statement of financial position and totaled approximately $8,800 and $9,100 as of June 30, 2015 and 2014, respectively.

As of June 30, 2015 and 2014, the beneficial interest in assets held by TCF consists primarily of investments in pooled funds. The beneficial interest is valued at the net asset value (NAV) of shares in the pooled accounts, which approximates the fair value of the underlying investments. The investment objective of the Fund focuses on total return while preserving and appreciating capital, striving to reduce and control risk to the extent possible. The Investment Policy Statement provides for a targeted asset allocation. The securities used in the portfolio should be broadly diversified among asset classes to help minimize volatility over the long-term.

Note C – Fair Value Measurement

The Fair Value Topic of the FASB Accounting Standards Codification establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under the Fair Value Topic are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Center has the ability to access.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair-value measurement.

The following table sets forth by level, within the fair value hierarchy, the Center's assets recorded as of June 30:

	2015			
	Level 1	Level 2	Level 3	Total
Mutual funds	$ 2,848,492	$ -	$ -	$ 2,848,492
TCF pooled funds	-	41,377	-	41,377
	$ 2,848,492	$ 41,377	$ -	$ 2,889,869

	2014			
	Level 1	Level 2	Level 3	Total
Mutual funds	$ 2,910,398	$ -	$ -	$ 2,910,398
TCF pooled funds	-	42,552	-	42,552
	$ 2,910,398	$ 42,552	$ -	$ 2,952,950

Note D – Property and Equipment

Property and equipment consisted of the following as of June 30:

	2015	2014
Land	$ 501,228	$ 501,228
Building and improvements	5,937,167	5,937,167
Office and classroom equipment	764,366	743,847
Vehicle	44,985	44,985
Computers and software	14,991	14,991
	7,262,737	7,242,218
Accumulated depreciation	(1,347,887)	(1,112,260)
Net property and equipment	$ 5,914,850	$ 6,129,958

Note E – Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following as of June 30:

	2015	2014
Programs	$ 19,581	$ 8,728
Program funds	1,181,261	1,248,865
Maintenance fund	1,697,239	1,703,538
Land	501,228	501,228
Building, net	4,972,239	5,114,959
	$ 8,371,548	$ 8,577,318

Program funds include TCF pooled funds.

Net assets were released from restriction through the expenditure of funds for the purpose for which received, depreciation of underlying assets, or receipt or write-off of pledges receivable (i.e. time restricted).

Note F – Commitments and Contingencies

In June 2008, the Center was awarded a $6,635,040 grant from the Donald W. Reynolds Foundation (Reynolds Foundation) for the construction and furnishing of an early childhood development center. Under the terms and conditions of the Reynolds Foundation grant, the Center is required to maintain a restricted source of funds for program operations. This donor-restricted fund was created to provide earnings for the ongoing operations of the programs offered by the Center. The Center fully funded this restricted account in 2012. During 2012, the Reynolds Foundation provided the Center with an additional grant to establish a Restricted Fund for Project Maintenance, Repair and Equipment in the amount of $1,327,008. Under the terms and conditions of the grant, as amended, the Center can expend investment return and 5 percent of the corpus of each restricted fund. Any unspent available funds may be carried over to future years.

The following table depicts the activity of each of the Reynolds Foundation Grants:

	Program Fund	Maintenance Fund
Balance June 30, 2013	$ 1,244,894	$ 1,489,773
Investment return	173,865	226,465
Withdrawals	(212,000)	(12,700)
Balance June 30, 2014	1,206,759	1,703,538
Investment return	24,987	36,729
Withdrawals	(91,000)	(43,028)
Balance June 30, 2015	$ 1,140,746	$ 1,697,239
Available carryover for future years	$ 74,829	$ 635,632

Note G – Liquidity

As indicated in the accompanying financial statements, the Center reported a decrease in net assets of $316,044 during the year ended June 30, 2015. In addition, at June 30, 2015, current liabilities of $59,157 exceeded current assets of $17,796 by $41,361.

As shown in the statements of financial position as of June 30, 2015, the Center has total assets of $8,822,515 and net assets of $8,763,358. While the Center has a significant asset base and equity, the Center is dependent on tuition and contributions from donors for liquidity. Liquidity is a measure of an entity's ability to meet its current obligations. The ultimate ability of the Center to meet its liquidity requirements is predicated on these revenues and controlling costs.