Happy Hands Education Center, Inc.

Financial Statements and
Independent Auditor's Report

June 30, 2018 and 2017

Contents

Stanfield + O'Dell
CPAs & ADVISORS

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, 2018 and 2017, 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.

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, 2018 and 2017, 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.

Stanfield + O'Dell, P.C.

Tulsa, Oklahoma
March 5, 2019

Happy Hands Education Center, Inc.

Statements of Financial Position

June 30,

Assets	2018	2017
Current assets		
Cash	$ 85,245	$ 13,402
Accounts receivable	16,089	20,545
Pledges receivable, net	32,010	75,463
Other assets	610	610
Total current assets	133,954	110,020
Investments		
Program funds	1,013,273	1,071,479
Maintenance funds	1,434,249	1,647,291
	2,447,522	2,718,770
Long-term pledges receivable, net	75,060	-
Property and equipment	7,414,482	7,395,419
Less: accumulated depreciation	(1,977,761)	(1,782,339)
Net property and equipment	5,436,721	5,613,080
Total assets	$ 8,093,257	$ 8,441,870
Liabilities and Net Assets		
Current liabilities		
Accounts payable	$ 25,743	$ 39,955
Accrued liabilities	45,508	303,590
Prepaid scholarships	10,048	28,800
Total current liabilities	81,299	372,345
Net assets (Note F)		
Unrestricted	7,700,414	73,977
Temporarily restricted	311,544	7,995,548
Total net assets	8,011,958	8,069,525
Total liabilities and net assets	$ 8,093,257	$ 8,441,870

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

Happy Hands Education Center, Inc.

Statements of Activities

Years Ended June 30,

	2018	2017
Changes in unrestricted net assets		
Support and revenue		
Contributions	$ 198,273	$ 264,739
Fundraising events	55,170	40,216
Tuition	1,217,345	1,120,881
Grant income	177,047	135,500
Investment return	15,803	17,329
Other income	219	273
Net assets released from restriction	183,811	443,524
Release of donor restriction (Note F)	8,019,563	-
Total support and revenue	9,867,231	2,022,462
Expenses		
Program services	1,936,290	1,822,551
General and administrative	208,925	204,174
Fundraising	95,579	90,115
Total expenses	2,240,794	2,116,840
Increase (decrease) in unrestricted assets	7,626,437	(94,378)
Changes in temporarily restricted net assets		
Restricted contributions	279,715	57,793
Restricted grants	81,360	101,509
Investment return	158,295	290,329
Net assets released	(183,811)	(443,524)
Release of donor restriction (Note F)	(8,019,563)	-
Increase (decrease) in temporarily restricted net assets	(7,684,004)	6,107
Change in net assets	(57,567)	(88,271)
Net assets		
Beginning of year	8,069,525	8,157,796
End of year	$ 8,011,958	$ 8,069,525

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

Happy Hands Education Center, Inc.

Statements of Functional Expenses

Years Ended June 30,

	2018			
	Program	General and Administrative	Fundraising	Total
Personnel costs	$ 763,901	$ 111,660	$ 86,029	$ 961,590
Insurance	23,669	3,207	741	27,617
Depreciation	205,434	27,165	1,380	233,979
Supplies	64,276	13,285	3,825	81,386
Financial aid scholarships and allowances	710,532	-	-	710,532
Repairs and maintenance	68,028	8,996	457	77,481
Utilities	39,014	5,159	262	44,435
Professional fees	-	18,296	-	18,296
Training	26,779	-	-	26,779
Other operating expenses	34,657	21,157	2,885	58,699
	$ 1,936,290	$ 208,925	$ 95,579	$ 2,240,794

	2017			
	Program	General and Administrative	Fundraising	Total
Personnel costs	$ 732,876	$ 107,125	$ 82,535	$ 922,536
Insurance	21,369	2,869	479	24,717
Depreciation	192,869	25,503	1,296	219,668
Supplies	75,211	11,542	739	87,492
Financial aid scholarships and allowances	652,723	-	-	652,723
Repairs and maintenance	47,659	6,302	320	54,281
Utilities	34,793	4,601	234	39,628
Professional fees	-	24,807	-	24,807
Training	33,511	-	-	33,511
Other operating expenses	31,540	21,425	4,512	57,477
	$ 1,822,551	$ 204,174	$ 90,115	$ 2,116,840

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

Statements of Cash Flows

Years Ended June 30,

	2018	2017
Cash Flows from Operating Activities		
Change in net assets	$ (57,567)	$ (88,271)
Adjustments to reconcile change in the net assets to net cash used in operating activities:		
Depreciation	233,979	219,668
Unrealized gain	(79,933)	(270,206)
Decrease (increase) in:		
Accounts receivable	4,456	(8,712)
Pledges receivable, net	(31,607)	(75,463)
Increase (decrease) in:		
Accounts payable	(14,212)	8,547
Accrued liabilities	(258,082)	111,652
Prepaid scholarships	(18,752)	28,800
Net cash used in operating activities	(221,718)	(73,985)
Cash Flows from Investing Activities		
Purchases of fixed assets	(57,620)	(121,171)
Proceeds from sale of investments	448,506	247,652
Reinvested interest and dividends	(97,325)	(45,760)
Net cash provided by investing activities	293,561	80,721
Net Increase in Cash and Cash Equivalents	71,843	6,736
Cash and Cash Equivalents at Beginning of Year	13,402	6,666
Cash and Cash Equivalents at End of Year	$ 85,245	$ 13,402

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, from 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 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, 2018 and 2017, 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, 2018 and 2017 consist primarily of mutual funds and a beneficial interest in funds held at the 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 designated by the board (see Note F). Interest income is accrued as earned and is reported and presented net of investment advisory fees (totaling $16,088 and $16,786 for the years ended June 30, 2018 and 2017, respectively).

7. *Inventory*

Inventory is stated at the lower of cost or net realizable value.

8. *Property, Plant and Equipment*

Assets over $1,000 and having 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.

The Center periodically reviews the carrying amount of its capital assets whenever events or circumstances provide evidence that suggests that the carrying amount may not be recoverable. If this review indicates that capital assets may not be recoverable, the Center reviews the expected undiscounted future net operating cash flows from the use of these assets. If such assets are considered impaired, the impairment in value is recognized as a charge in the statement of activities. The impairment charge is the difference between the carrying amount of the capital assets and its fair value. The Center does not believe there is any indication that the carrying value or the amortization of its capital assets has been impaired during the years ended June 30, 2018 and 2017, respectively.

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.

Note A – Summary of Significant Accounting Policies - Continued

10. Pledge Receivable

Pledges receivable consist of unconditional promises to give that are recognized as revenues in the period received.

11. 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.

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.

12. Fundraising Events

Fundraising events are reported net of direct expenses of $17,473 in 2018 and $20,022 in 2017.

13. 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.

14. 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.

15. Subsequent Events

Subsequent events have been reviewed through March 5, 2019, the date the statements were available to be issued.

Note B – Investments

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

	2018	2017
Mutual funds	$ 2,403,352	$ 2,677,741
TCF pooled funds	44,170	41,029
	$ 2,447,522	$ 2,718,770

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 $9,400 and $8,700 as of June 30, 2018 and 2017, respectively.

As of June 30, 2018 and 2017, 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:

	2018			
	Level 1	Level 2	Level 3	Total
Mutual funds	$ 2,403,352	$ -	$ -	$ 2,403,352
TCF pooled funds	-	44,170	-	44,170
	$ 2,403,352	$ 44,170	$ -	$ 2,447,522

	2017			
	Level 1	Level 2	Level 3	Total
Mutual funds	$ 2,677,741	$ -	$ -	$ 2,677,741
TCF pooled funds	-	41,029	-	41,029
	$ 2,677,741	$ 41,029	$ -	$ 2,718,770

Note D – Pledges Receivable

Pledges receivable consisted of the following as of June 30:

	2018	2017
Amount due in:		
Less than one year	$ 32,010	$ 75,463
One to five years	75,060	-
Total	$ 107,070	$ 75,463

Management believes the pledges receivable will be collected and has not provided an allowance for doubtful accounts as of June 30, 2018 and 2017.

Note E – Property and Equipment

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

	2018	2017
Land	$ 501,228	$ 501,228
Building and improvements	6,105,377	6,052,188
Office and classroom equipment	747,901	782,027
Vehicle	44,985	44,985
Computers and software	14,991	14,991
	7,414,482	7,395,419
Accumulated depreciation	(1,977,761)	(1,782,339)
Net property and equipment	$ 5,436,721	$ 5,613,080

Note F – Net Assets

Unrestricted net assets consisted of the following as of June 30:

	2018	2017
Investment in captial assets, net	$ 5,436,721	$ 425,052
Board designated		
Program fund	923,782	-
Maintenance fund	1,434,248	-
Undesignated	(94,337)	(351,075)
	$ 7,700,414	$ 73,977

Note F – Net Assets - Continued

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

	2018	2017
Programs	$ 222,053	$ 88,750
Program funds	89,491	1,071,479
Maintenance fund	-	1,647,291
Land	-	501,228
Building, net	-	4,686,800
	$ 311,544	$ 7,995,548

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).

During the years ended June 30, 2018 and 2017, the organization incurred $183,811 and $443,524, respectively, in expenses in satisfaction of the restricted purposes specified by the donors, or satisfied the occurrence of the other events. Accordingly, a corresponding amount has been reported as a reclassification from temporarily restricted net assets to unrestricted net assets in the accompanying statement of activities, as described in the following table:

	2018	2017
Satisfaction of donor restrictions for operating purposes	$ 41,091	$ 300,804
Time restrictions that expired as depreciation was recognized	142,720	142,720
	$ 183,811	$ 443,524

Note F – Net Assets - Continued

Release of donor restriction

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.

On November 1, 2017, the Reynolds Foundation notified the Center it would cease active operations and released all restrictions on grant funds. As of that date, the board designated these funds to continue with the purpose of the grant restrictions on the funds held in investments. As of June 30, 2018, these investments are now reported as board designated quasi-endowment.

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

	Program Fund	Maintenance Fund
Balance June 30, 2016	$ 991,296	$ 1,620,950
Investment return	105,259	180,182
Withdrawals	(66,350)	(153,841)
Balance June 30, 2017	1,030,205	1,647,291
Investment return	52,312	102,173
Withdrawals	(158,735)	(315,216)
Balance June 30, 2018	$ 923,782	$ 1,434,248
Available carryover for future years	$ 65,810	$ 571,693

Note G – Operations

Happy Hands Education Center is confident in the continued operations and commitment to serve deaf and hard of hearing children this year and beyond. The Center has been in operation for twenty-five years through abundant financial times and lean financial times, but services to children have only grown and the need for services has also grown across Northeast Oklahoma.

The leadership believes that the Center will continue to provide services for many years to come and has addressed sustainable funding by entering a campaign and fundraising program four years ago to seek multiple 5-year pledges each year. The expectations for this campaign have already been exceeded, and, with the 25th Anniversary, the expectation is for the program to experience significant growth in the coming fiscal year in both one-time gifts and pledges.

The quasi-endowment is structured for some degree of liquidity of the corpus as well as interest and earnings. Therefore, a portion of these accounts can be accessed if needed for programs and operations. This usually amounts to two to four months of operating expenses during the year, depending on the fluctuations in the stock market, but the intent of the leadership is to only access these funds for critical needs and in the original spirit of the donor's request. In addition, the Center is working diligently to grow the endowment funds and to increase the Legacy giving. The future is bright for the children and families served at Happy Hands and for future families to come.