# Heartspring, Inc.

Independent Auditor's Report and
Consolidated Financial Statements

June 30, 2016 and 2015

BKD LLP
CPAs & Advisors

# Heartspring, Inc.
## June 30, 2016 and 2015

### Contents

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CPAs & Advisors

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# Independent Auditor's Report

Board of Trustees
Heartspring, Inc.
Wichita, Kansas

We have audited the accompanying consolidated financial statements of Heartspring, Inc. and its affiliates, which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

## *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Heartspring, Inc. and its affiliates as of June 30, 2016 and 2015, 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.

### *Supplementary Information*

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedules of functional expenses and activities listed in the table of contents are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

BKD, LLP

Wichita, Kansas
November 16, 2016

# Heartspring, Inc.
## Consolidated Statements of Financial Position
## June 30, 2016 and 2015

| | 2016 | 2015 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 535,022 | $ 698,923 |
| Accounts receivable, net of allowance; 2016 – $197,922; 2015 – $110,000 | 2,828,775 | 2,241,307 |
| Prepaid expenses and other | 140,371 | 262,398 |
| Investments | 13,118,839 | 14,126,521 |
| Contributions receivable | 9,905 | - |
| Interest in assets held by Wichita Community Foundation | 4,420,740 | 4,865,164 |
| Property and equipment, net of accumulated depreciation; 2016 – $8,688,535; 2015 – $8,080,984 | 10,940,685 | 10,995,484 |
| Total assets | $ 31,994,337 | $ 33,189,797 |
| **Liabilities and Net Assets** | | |
| **Liabilities** | | |
| Accounts payable | $ 131,665 | $ 97,374 |
| Accrued compensated absences | 515,146 | 510,093 |
| Other accrued expenses | 435,329 | 570,001 |
| Deposits and advances | 148,307 | 70,228 |
| Total liabilities | 1,230,447 | 1,247,696 |
| **Net Assets** | | |
| Unrestricted | 26,266,691 | 27,312,165 |
| Temporarily restricted | 1,818,578 | 1,951,315 |
| Permanently restricted | 2,678,621 | 2,678,621 |
| Total net assets | 30,763,890 | 31,942,101 |
| Total liabilities and net assets | $ 31,994,337 | $ 33,189,797 |

# Heartspring, Inc.
## Consolidated Statements of Activities
## Years Ended June 30, 2016 and 2015

| | 2016 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| **Revenues, Gains and Other Support** | | | | |
| Fees | $ 16,880,848 | $ - | $ - | $ 16,880,848 |
| Contributions | 397,118 | 441,541 | - | 838,659 |
| Investment return | 346,540 | (133,816) | - | 212,724 |
| Change in interest in assets held by Wichita Community Foundation | (444,424) | - | - | (444,424) |
| Other | 118,025 | - | - | 118,025 |
| Satisfaction of program restrictions | 329,297 | (329,297) | - | - |
| Satisfaction of equipment acquisition restrictions | 111,165 | (111,165) | - | - |
| Total revenues, gains and other support | 17,738,569 | (132,737) | - | 17,605,832 |
| **Expenses** | | | | |
| School | 13,693,112 | - | - | 13,693,112 |
| Pediatric Services | 3,541,728 | - | - | 3,541,728 |
| Total program services | 17,234,840 | - | - | 17,234,840 |
| Management and general | 992,975 | - | - | 992,975 |
| Fund raising | 556,228 | - | - | 556,228 |
| Total expenses | 18,784,043 | - | - | 18,784,043 |
| **Change in Net Assets** | (1,045,474) | (132,737) | - | (1,178,211) |
| **Net Assets, Beginning of Year** | 27,312,165 | 1,951,315 | 2,678,621 | 31,942,101 |
| **Net Assets, End of Year** | $ 26,266,691 | $ 1,818,578 | $ 2,678,621 | $ 30,763,890 |

| 2015 | | | |
|---|---|---|---|
| Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| $ 15,110,037 | $ - | $ - | $ 15,110,037 |
| 378,966 | 500,993 | - | 879,959 |
| 416,210 | 80,183 | - | 496,393 |
| (367,129) | - | - | (367,129) |
| 111,804 | - | - | 111,804 |
| 445,657 | (445,657) | - | - |
| 115,237 | (115,237) | - | - |
| 16,210,782 | 20,282 | - | 16,231,064 |
| 12,568,506 | - | - | 12,568,506 |
| 2,780,563 | - | - | 2,780,563 |
| 15,349,069 | - | - | 15,349,069 |
| 1,077,826 | - | - | 1,077,826 |
| 433,569 | - | - | 433,569 |
| 16,860,464 | - | - | 16,860,464 |
| (649,682) | 20,282 | - | (629,400) |
| 27,961,847 | 1,931,033 | 2,678,621 | 32,571,501 |
| $ 27,312,165 | $ 1,951,315 | $ 2,678,621 | $ 31,942,101 |

# Heartspring, Inc.
## Consolidated Statements of Cash Flows
## Years Ended June 30, 2016 and 2015

| | 2016 | 2015 |
|---|---|---|
| **Operating Activities** | | |
| Change in net assets | $ (1,178,211) | $ (629,400) |
| Items not requiring (providing) operating activities cash flows | | |
| Depreciation | 687,319 | 681,996 |
| Loss on disposal of property and equipment | 7,447 | 4,557 |
| Net realized and unrealized losses on investments | 547,012 | 228,711 |
| Loss on interest in net assets at Wichita Community Foundation | 444,424 | 367,129 |
| Changes in | | |
| Accounts receivable | (587,468) | (68,151) |
| Prepaid expenses and other | 122,027 | 5,474 |
| Contributions receivable | (9,905) | - |
| Accounts payable and accrued expenses | (95,328) | 144,780 |
| Deposits and advances | 78,079 | 67,636 |
| Net cash provided by operating activities | 15,396 | 802,732 |
| **Investing Activities** | | |
| Purchase of property and equipment | (638,131) | (208,885) |
| Proceeds from disposition of property and equipment | (1,836) | 6,611 |
| Purchase of investments | (2,816,006) | (5,619,515) |
| Proceeds from sale of investments | 3,276,676 | 5,091,646 |
| Net cash used in investing activities | (179,297) | (730,143) |
| **Increase (Decrease) in Cash and Cash Equivalents** | (163,901) | 72,589 |
| **Cash and Cash Equivalents, Beginning of Year** | 698,923 | 626,334 |
| **Cash and Cash Equivalents, End of Year** | $ 535,022 | $ 698,923 |

# Heartspring, Inc.
## Notes to Consolidated Financial Statements
## June 30, 2016 and 2015

## Note 1: Nature of Operations and Summary of Significant Accounting Policies

### *Nature of Operations*

Heartspring, Inc. (Heartspring), located in Wichita, Kansas, began in 1934 as a not-for-profit institution, serving children with speech defects and disorders. Today, Heartspring provides a wide range of services and therapies through several programs, including the Heartspring School and Heartspring Pediatric Services.

The Heartspring School is a therapeutic residential and day school program for children with severe developmental disabilities from across the United States. Many of these children cannot be served adequately through programs in their home school districts and look to Heartspring for its unique individualized programming, which utilizes evidence-based and emerging best practices. Students often have multiple diagnoses, including autism spectrum disorders, cerebral palsy, speech and language impairments, visual impairments and other developmental disabilities.

Additionally, the Heartspring School offers training and consultation services to parents and professionals within the United States and around the world. Through its international outreach efforts, Heartspring professionals attend international conferences and work collaboratively with individuals from other organizations to forge a brighter pathway for children with special needs worldwide.

Heartspring's Pediatric Services offers occupational, physical and speech therapies, audiology, Applied Behavior Analysis (ABA) and psychological services to children ages birth to 21. As an outpatient comprehensive facility, Heartspring Pediatric Services follows medical model practices and works with families and other professionals from Wichita and the surrounding communities to ensure progress across multiple settings. Therapists use hands-on therapeutic interventions in an individualized setting, while teaching families how to continue therapy at home and in the community. Additional community services include autism outreach efforts for children and young adults on the autism spectrum. Programs consist of a summer day camp, weekly social groups, consultation services for families and training for businesses to provide greater opportunity to those impacted by autism spectrum disorders.

### *Principles of Consolidation*

The consolidated financial statements include the accounts and activities of Heartspring, Heartspring Endowment Trust (the Endowment) and Heartspring Foundation (the Foundation) due to their relationships, structures, purposes and shared economic interests. The Endowment was established to provide an annual income to Heartspring in furtherance of its purposes using permanently restricted endowments. The Foundation was established to provide support for Heartspring's programs typically using funds that are temporarily restricted for a particular purpose. All significant intercompany accounts and transactions have been eliminated in consolidation.

### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

### *Cash Equivalents*

Heartspring considers all liquid investments, except those assets held by the Foundation and Endowment as well as any temporarily or permanently restricted funds, with original maturities of three months or less to be cash equivalents. At June 30, 2016 and 2015, cash equivalents consisted primarily of money market accounts.

At June 30, 2016, Heartspring's cash accounts exceeded federally insured limits by approximately $351,000.

### *Investments and Investment Return*

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividends, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

Investment return is reflected in the statements of activities as unrestricted or temporarily restricted based upon the existence and nature of any donor or legally imposed restrictions.

Heartspring maintains pooled investment accounts for its restricted endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated annually to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investments accounts, as adjusted for additions to or deductions from those accounts.

### *Accounts Receivable*

Accounts receivable are stated at the amount billed to clients. Heartspring provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Accounts receivable are ordinarily due 30 days after the issuance of the invoice. Accounts past due more than 30 days are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the client.

### *Property and Equipment*

Property and equipment are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

| | |
|---|---|
| Buildings | 5 - 50 years |
| Land improvements | 5 - 50 years |
| Equipment and furnishings | 3 - 20 years |

### *Temporarily and Permanently Restricted Net Assets*

Temporarily restricted net assets are those whose use by Heartspring has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by Heartspring in perpetuity.

### *Fees Revenue*

Heartspring has agreements with third-party payers that provide for payments to Heartspring at amounts different from its established rates. Fees revenue is reported at the estimated net realizable amounts from clients, third-party payers and others for services rendered.

### *Contributions*

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as temporarily restricted and then released from restriction.

### *Income Taxes*

Heartspring, the Endowment and the Foundation are exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, they are subject to federal income tax on any unrelated business taxable income. Heartspring, the Endowment and the Foundation file tax returns in the U.S. federal jurisdiction.

### *Functional Allocation of Expenses*

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited. Occupancy costs and maintenance expenses have been allocated based upon space utilized by the departments within the various services. Depreciation costs have been allocated based upon asset usage.

### *Transfers Between Fair Value Hierarchy Levels*

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the actual transfer date.

### *Change in Accounting Principle*

In 2016, Heartspring changed its accounting policy on accounting disclosures by adopting the provisions of ASU 2015-07, *Fair Value Measurement (Topics 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. The accounting policy exempts investments measured using the net asset value (NAV) practical expedient in ASC 820, *Fair Value Measurement*, from categorization within the fair value hierarchy. This change was applied retrospectively for all periods presented.

### *Reclassifications*

Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 financial statement presentation. These reclassifications had no effect on the change in net assets.

## Note 2: Investments and Investment Return

Investments at June 30 consisted of the following:

| | 2016 | 2015 |
|---|---|---|
| Investments, at Fair Value | | |
| Equity securities | $ 6,595,620 | $ 4,862,506 |
| Corporate debt securities | 3,912,085 | 6,263,260 |
| U.S. treasury securities | 278,294 | 129,212 |
| Mortgage-backed securities | 50,226 | 50,519 |
| Money market funds | 223,886 | 271,459 |
| | 11,060,111 | 11,576,956 |
| Investments, at Cost | | |
| Certificates of deposit | 2,058,728 | 2,549,565 |
| | $ 13,118,839 | $ 14,126,521 |

Total investment return is comprised of the following:

| | 2016 | | |
|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Total |
| Interest and dividend income, less investment expense of $24,022 | $ 648,090 | $ 111,646 | $ 759,736 |
| Net realized gains on investments reported at fair value | 29,963 | 109,186 | 139,149 |
| Net unrealized losses on investments reported at fair value | (331,513) | (354,648) | (686,161) |
| Total | $ 346,540 | $ (133,816) | $ 212,724 |

| | 2015 | | |
|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Total |
| Interest and dividend income, less investment expense of $25,403 | $ 492,382 | $ 232,722 | $ 725,104 |
| Net realized gains on investments reported at fair value | 34,895 | 127,162 | 162,057 |
| Net unrealized losses on investments reported at fair value | (111,067) | (279,701) | (390,768) |
| Total | $ 416,210 | $ 80,183 | $ 496,393 |

## Note 3: Interest in Assets Held by Wichita Community Foundation

Heartspring has transferred assets to the Wichita Community Foundation and retained a beneficial interest in those assets. Heartspring is to receive an annual return of 4.5% based on a three-year rolling average, and undistributed earnings will be retained. Principal distributions must be voted on by the Board of the Wichita Community Foundation. Heartspring has not granted variance power to the Wichita Community Foundation. The assets held by Wichita Community Foundation are recorded at NAV, as a practical expedient, to determine fair value. The cumulative amount of the retained beneficial interest included in the statements of financial position consists of:

| | 2016 | 2015 |
|---|---|---|
| Heartspring, Inc. | $ 555,436 | $ 609,402 |
| Heartspring Foundation | 3,865,304 | 4,255,762 |
| | $ 4,420,740 | $ 4,865,164 |

## Note 4: Property and Equipment

Property and equipment at June 30 consists of:

| | 2016 | 2015 |
|---|---|---|
| Land and improvements | $ 3,574,808 | $ 3,470,096 |
| Buildings | 13,491,272 | 13,223,304 |
| Equipment and furnishings | 2,563,140 | 2,383,068 |
| | 19,629,220 | 19,076,468 |
| Less accumulated depreciation | 8,688,535 | 8,080,984 |
| | $ 10,940,685 | $ 10,995,484 |

## Note 5: Net Assets

### *Temporarily Restricted Net Assets*

Temporarily restricted net assets at June 30 are available for the following purposes:

| | 2016 | 2015 |
|---|---|---|
| Financial assistance to clients | $ 1,373,967 | $ 1,520,525 |
| Hearing Center | 54,527 | 51,913 |
| Pediatric Services | 60,025 | 79,055 |
| School | 120,883 | 123,074 |
| Any program | 2,234 | 1,424 |
| CARE | 98,109 | 79,479 |
| World Reach | 1,597 | 5,442 |
| Other | 107,236 | 90,403 |
| | $ 1,818,578 | $ 1,951,315 |

### Permanently Restricted Net Assets

Permanently restricted net assets at June 30 are restricted to:

| | 2016 | 2015 |
|---|---|---|
| Investment in perpetuity, the income of which | | |
| is expendable to support | | |
| General operations | $ 748,480 | $ 748,480 |
| Financial assistance to clients | 1,762,631 | 1,762,631 |
| Pediatric Services | 4,000 | 4,000 |
| Other | 163,510 | 163,510 |
| | $ 2,678,621 | $ 2,678,621 |

### Net Assets Released From Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

| | 2016 | 2015 |
|---|---|---|
| Purpose restrictions accomplished | | |
| Financial assistance to clients | $ 148,698 | $ 247,113 |
| Pediatric Services program expenses | 23,434 | 863 |
| School program expenses | 49,563 | 61,684 |
| CARE | 90,656 | 121,868 |
| World Reach | 3,845 | 3,939 |
| Other | 13,101 | 10,190 |
| | 329,297 | 445,657 |
| Equipment acquired and placed in service | 111,165 | 115,237 |
| | $ 440,462 | $ 560,894 |

## Note 6: Endowment

Heartspring's endowment consists of approximately 25 individual funds established for a variety of purposes. The endowment consists entirely of donor-restricted endowment funds. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Heartspring's governing body has interpreted the *State of Kansas Prudent Management of Institutional Funds Act* (SPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Heartspring classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Heartspring in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, Heartspring considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of Heartspring and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of Heartspring
7. Investment policies of Heartspring

The composition of net assets by type of endowment fund at June 30, 2016 and 2015, was:

| | 2016 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Donor-restricted endowment funds | $ 20,789 | $ 1,417,660 | $ 2,678,621 | $ 4,117,070 |

| | 2015 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Donor-restricted endowment funds | $ 71,218 | $ 1,601,430 | $ 2,678,621 | $ 4,351,269 |

Changes in endowment net assets for the years ended June 30, 2016 and 2015, were:

| | 2016 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Endowment net assets, beginning of year | $ 71,218 | $ 1,601,430 | $ 2,678,621 | $ 4,351,269 |
| Investment return | | | | |
| Investment income | 46,892 | 170,878 | - | 217,770 |
| Net depreciation | (51,719) | (188,468) | - | (240,187) |
| Total investment return | (4,827) | (17,590) | - | (22,417) |
| Appropriation of endowment net assets for expenditure | (45,602) | (166,180) | - | (211,782) |
| Endowment net assets, end of year | $ 20,789 | $ 1,417,660 | $ 2,678,621 | $ 4,117,070 |

| | 2015 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Endowment net assets, beginning of year | $ 92,140 | $ 1,677,670 | $ 2,678,621 | $ 4,448,431 |
| Investment return | | | | |
| Investment income | 55,866 | 203,423 | - | 259,289 |
| Net depreciation | (33,819) | (123,240) | - | (157,059) |
| Total investment return | 22,047 | 80,183 | - | 102,230 |
| Appropriation of endowment net assets for expenditure | (42,969) | (156,423) | - | (199,392) |
| Endowment net assets, end of year | $ 71,218 | $ 1,601,430 | $ 2,678,621 | $ 4,351,269 |

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level Heartspring is required to retain as a fund of perpetual duration pursuant to donor stipulation or SPMIFA. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and aggregated $0 at June 30, 2016 and 2015. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after investment of new permanently restricted contributions and continued appropriation for certain purposes that was deemed prudent by the governing body.

Heartspring has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds Heartspring must hold in perpetuity or for donor-specified periods.

Heartspring relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). Heartspring targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Heartspring has a policy (the spending policy) of appropriating for expenditure each year 5% (percentage determined based on a three-year rolling average in agreement with the Endowment trustees and Heartspring management) of its endowment fund’s fair value at the end of each calendar year preceding the year in which expenditure is planned. Heartspring’s objective is to maintain the purchasing power of endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return. Permanent restrictions are limited to the amount of the original gift.

## Note 7: Tax-deferred Annuity Plan

Heartspring provides a retirement annuity program for employees who meet certain length of service requirements. Heartspring contributes toward an annuity contract for each eligible employee an amount equal to 3% of the employee’s annual salary. In addition, Heartspring matches voluntary contributions to the annuity contract by the employee based upon their voluntary contributions. Heartspring matches one-half of an employee’s contribution up to an additional 3% of their annual salary. Heartspring’s expense related to the plan was $353,569 and $361,926 in 2016 and 2015, respectively.

## Note 8: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

**Level 1** Quoted prices in active markets for identical assets or liabilities

**Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

**Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

### *Recurring Measurements*

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2016 and 2015:

| | | 2016 Fair Value Measurements Using | | |
|---|---|---|---|---|
| | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Investments | | | | |
| Equity securities | $ 6,595,620 | $ 6,595,620 | $ - | $ - |
| Corporate debt securities | 3,912,085 | 3,912,085 | - | - |
| U.S. treasury securities | 278,294 | 278,294 | - | - |
| Mortgage-backed securities | 50,226 | - | 50,226 | - |
| Money market funds | 223,886 | 223,886 | - | - |
| | $ 11,060,111 | $ 11,009,885 | $ 50,226 | $ - |

| | | 2015 Fair Value Measurements Using | | |
|---|---|---|---|---|
| | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Investments | | | | |
| Equity securities | $ 4,862,506 | $ 4,862,506 | $ - | $ - |
| Corporate debt securities | 6,263,260 | 6,014,280 | 248,980 | - |
| U.S. treasury securities | 129,212 | 129,212 | - | - |
| Mortgage-backed securities | 50,519 | - | 50,519 | - |
| Money market funds | 271,459 | 271,459 | - | - |
| | $ 11,576,956 | $ 11,277,457 | $ 299,499 | $ - |

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2016. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

### *Investments*

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

## Note 9: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

### *Investments*

Heartspring invests in various investment securities both directly and through the Wichita Community Foundation. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying statements of financial position.

# Supplementary Information

# Heartspring, Inc.
## Functional Expenses
## Year Ended June 30, 2016

| | Program Services | | |
|---|---|---|---|
| | School | Pediatric Services | Total Program Services |
| Salaries and wages | $ 9,142,052 | $ 2,431,567 | $ 11,573,619 |
| Employee benefits | 2,149,413 | 486,616 | 2,636,029 |
| Total salaries, wages and related expenses | 11,291,465 | 2,918,183 | 14,209,648 |
| Professional fees | 188,216 | 60,108 | 248,324 |
| Supplies | 338,153 | 99,811 | 437,964 |
| Telephone | 40,053 | 11,087 | 51,140 |
| Postage and shipping | 6,236 | 3,017 | 9,253 |
| Occupancy | 301,553 | 52,130 | 353,683 |
| Rental and maintenance | 108,942 | 22,319 | 131,261 |
| Printing and publications | 34,977 | 16,814 | 51,791 |
| Travel and in-service training | 164,447 | 88,229 | 252,676 |
| Insurance | 116,340 | 21,304 | 137,644 |
| Advertising | 26,585 | 12,714 | 39,299 |
| Interest | 11,822 | 2,210 | 14,032 |
| Bad debt write-offs | 3,868 | 17,101 | 20,969 |
| Food | 352,241 | 1,456 | 353,697 |
| Utilities | 186,091 | 36,404 | 222,495 |
| Miscellaneous | 100,921 | 15,736 | 116,657 |
| Total expenses before depreciation | 13,271,910 | 3,378,623 | 16,650,533 |
| Depreciation | 421,202 | 163,105 | 584,307 |
| Total | $ 13,693,112 | $ 3,541,728 | $ 17,234,840 |

| Management and General | Development | Total |
|---|---|---|
| $ 605,690 | $ 323,185 | $ 12,502,494 |
| 72,170 | 42,309 | 2,750,508 |
| | | |
| 677,860 | 365,494 | 15,253,002 |
| | | |
| 64,113 | 20,966 | 333,403 |
| 15,182 | 24,603 | 477,749 |
| 2,846 | 1,990 | 55,976 |
| 2,950 | 3,859 | 16,062 |
| 42,761 | 10,367 | 406,811 |
| 21,592 | 10,542 | 163,395 |
| 2,277 | 25,717 | 79,785 |
| 13,056 | 12,487 | 278,219 |
| 6,950 | 2,322 | 146,916 |
| 4,354 | 20,588 | 64,241 |
| 1,766 | 267 | 16,065 |
| 149 | - | 21,118 |
| 5,330 | 11,345 | 370,372 |
| 17,142 | 3,429 | 243,066 |
| 17,964 | 35,923 | 170,544 |
| | | |
| 896,292 | 549,899 | 18,096,724 |
| | | |
| 96,683 | 6,329 | 687,319 |
| | | |
| $ 992,975 | $ 556,228 | $ 18,784,043 |

# Heartspring, Inc.
## Functional Expenses
## Year Ended June 30, 2015

| | Program Services | | |
|---|---|---|---|
| | School | Pediatric Services | Total Program Services |
| Salaries and wages | $ 8,414,280 | $ 1,889,332 | $ 10,303,612 |
| Employee benefits | 1,890,130 | 356,849 | 2,246,979 |
| Total salaries, wages and related expenses | 10,304,410 | 2,246,181 | 12,550,591 |
| Professional fees | 202,181 | 44,259 | 246,440 |
| Supplies | 302,815 | 83,081 | 385,896 |
| Telephone | 36,138 | 9,731 | 45,869 |
| Postage and shipping | 3,861 | 4,299 | 8,160 |
| Occupancy | 245,899 | 54,458 | 300,357 |
| Rental and maintenance | 171,321 | 30,318 | 201,639 |
| Printing and publications | 11,763 | 7,097 | 18,860 |
| Travel and in-service training | 155,429 | 70,651 | 226,080 |
| Insurance | 114,389 | 19,707 | 134,096 |
| Advertising | 21,922 | 16,151 | 38,073 |
| Interest | - | - | - |
| Bad debt write-offs (recoveries) | (52,953) | 4,780 | (48,173) |
| Food | 315,480 | 1,875 | 317,355 |
| Utilities | 189,140 | 38,784 | 227,924 |
| Miscellaneous | 100,241 | 17,071 | 117,312 |
| Total expenses before depreciation | 12,122,036 | 2,648,443 | 14,770,479 |
| Depreciation | 446,470 | 132,120 | 578,590 |
| Total | $ 12,568,506 | $ 2,780,563 | $ 15,349,069 |

| Management and General | Development | Total |
|---|---|---|
| $ 677,868 | $ 242,315 | $ 11,223,795 |
| 99,295 | 39,215 | 2,385,489 |
| | | |
| 777,163 | 281,530 | 13,609,284 |
| | | |
| 56,214 | 18,600 | 321,254 |
| 16,004 | 30,701 | 432,601 |
| 2,099 | 2,001 | 49,969 |
| 2,388 | 2,224 | 12,772 |
| 21,713 | 3,665 | 325,735 |
| 37,413 | 10,244 | 249,296 |
| 4,083 | 16,371 | 39,314 |
| 15,025 | 7,240 | 248,345 |
| 6,996 | 2,199 | 143,291 |
| 2,574 | 26,235 | 66,882 |
| 609 | - | 609 |
| - | - | (48,173) |
| 8,736 | 3,068 | 329,159 |
| 18,584 | 3,489 | 249,997 |
| 12,262 | 18,559 | 148,133 |
| | | |
| 981,863 | 426,126 | 16,178,468 |
| | | |
| 95,963 | 7,443 | 681,996 |
| | | |
| $ 1,077,826 | $ 433,569 | $ 16,860,464 |

# Heartspring, Inc.
## Schedules of Activities
## Years Ended June 30, 2016 and 2015

| | 2016 | | | |
|---|---|---|---|---|
| | Activities Exclusive of Fund Raising and Other Funds | Fund Raising | Other Funds | Total |
| **Public Support and Revenue** | | | | |
| Public Support | | | | |
| Contributions | $ - | $ 838,659 | $ - | $ 838,659 |
| Total public support | - | 838,659 | - | 838,659 |
| Revenue | | | | |
| Fees | 16,880,848 | - | - | 16,880,848 |
| Investment return | 255,567 | - | (42,843) | 212,724 |
| Distribution of earnings | 425,548 | - | (425,548) | - |
| Change in interest in assets held by Wichita Community Foundation | - | - | (444,424) | (444,424) |
| Other | 118,025 | - | - | 118,025 |
| Total public support, revenue and transfers | 17,679,988 | 838,659 | (912,815) | 17,605,832 |
| **Expenses** | | | | |
| Program Services | | | | |
| School | 13,693,112 | - | - | 13,693,112 |
| Pediatric Services | 3,541,728 | - | - | 3,541,728 |
| Total program services | 17,234,840 | - | - | 17,234,840 |
| Supporting Services | | | | |
| Management and general | 992,975 | - | - | 992,975 |
| Fund raising | - | 556,228 | - | 556,228 |
| Total expenses | 18,227,815 | 556,228 | - | 18,784,043 |
| **Change in Net Assets** | $ (547,827) | $ 282,431 | $ (912,815) | $ (1,178,211) |

| 2015 | | | |
|---|---|---|---|
| Activities Exclusive of Fund Raising and Other Funds | Fund Raising | Other Funds | Total |
| $ - | $ 879,959 | $ - | $ 879,959 |
| - | 879,959 | - | 879,959 |
| 15,110,037 | - | - | 15,110,037 |
| 222,883 | - | 273,510 | 496,393 |
| 404,985 | - | (404,985) | - |
| - | - | (367,129) | (367,129) |
| 111,804 | - | - | 111,804 |
| 15,849,709 | 879,959 | (498,604) | 16,231,064 |
| 12,568,506 | - | - | 12,568,506 |
| 2,780,563 | - | - | 2,780,563 |
| 15,349,069 | - | - | 15,349,069 |
| 1,077,826 | - | - | 1,077,826 |
| - | 433,569 | - | 433,569 |
| 16,426,895 | 433,569 | - | 16,860,464 |
| $ (577,186) | $ 446,390 | $ (498,604) | $ (629,400) |