Heartspring, Inc.

Independent Auditor's Report and
Consolidated Financial Statements

June 30, 2018 and 2017

BKD
CPAs & Advisors

Heartspring, Inc.
June 30, 2018 and 2017

Contents

BKD
CPAs & Advisors

1551 N. Waterfront Parkway, Suite 300 | Wichita, KS 67206-6601
316.265.2811 | Fax 316.265.9405 | bkd.com

Independent Auditor's Report

Board of Trustees
Heartspring, Inc.
Wichita, Kansas

We have audited the accompanying consolidated financial statements of Heartspring, Inc., which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, 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, 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.

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
December 10, 2018

Heartspring, Inc.

Consolidated Statements of Financial Position

June 30, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	$ 2,297,753	$ 1,005,366
Accounts receivable, net of allowance; 2018 – $232,919; 2017 – $249,843	3,264,898	3,008,044
Prepaid expenses and other	419,620	330,039
Investments	9,754,655	13,277,474
Contributions receivable	301,946	213,023
Interest in assets held by Wichita Community Foundation	4,722,900	4,645,503
Property and equipment, net of accumulated depreciation; 2018 – $9,441,740; 2017 – $9,090,773	15,027,065	11,775,957
Total assets	$ 35,788,837	$ 34,255,406
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 207,984	$ 648,449
Accrued compensated absences	583,845	567,889
Other accrued expenses	1,133,605	490,879
Deposits and advances	328,628	59,819
Total liabilities	2,254,062	1,767,036
Net Assets		
Unrestricted	28,684,492	27,739,177
Temporarily restricted	2,171,662	2,070,572
Permanently restricted	2,678,621	2,678,621
Total net assets	33,534,775	32,488,370
Total liabilities and net assets	$ 35,788,837	$ 34,255,406

Heartspring, Inc.
Consolidated Statements of Activities
Years Ended June 30, 2018 and 2017

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support				
Fees	$ 20,833,579	$ -	$ -	$ 20,833,579
Contributions	483,272	941,224	-	1,424,496
Investment return	747,292	55,287	-	802,579
Change in interest in assets held by Wichita Community Foundation	77,397	-	-	77,397
Other	145,845	-	-	145,845
Satisfaction of program restrictions	872,211	(872,211)	-	-
Satisfaction of equipment acquisition restrictions	23,210	(23,210)	-	-
Total revenues, gains and other support	23,182,806	101,090	-	23,283,896
Expenses				
School	16,375,149	-	-	16,375,149
Pediatric Services	4,337,283	-	-	4,337,283
Total program services	20,712,432	-	-	20,712,432
Management and general	847,858	-	-	847,858
Fund raising	677,201	-	-	677,201
Total expenses	22,237,491	-	-	22,237,491
Change in Net Assets	945,315	101,090	-	1,046,405
Net Assets, Beginning of Year	27,739,177	2,070,572	2,678,621	32,488,370
Net Assets, End of Year	$ 28,684,492	$ 2,171,662	$ 2,678,621	$ 33,534,775

2017			
Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
$ 18,397,630	$ -	$ -	$ 18,397,630
400,835	1,008,086	-	1,408,921
1,143,234	170,336	-	1,313,570
224,763	-	-	224,763
144,721	-	-	144,721
876,046	(876,046)	-	-
50,382	(50,382)	-	-
21,237,611	251,994	-	21,489,605
14,458,680	-	-	14,458,680
3,905,240	-	-	3,905,240
18,363,920	-	-	18,363,920
720,928	-	-	720,928
680,277	-	-	680,277
19,765,125	-	-	19,765,125
1,472,486	251,994	-	1,724,480
26,266,691	1,818,578	2,678,621	30,763,890
$ 27,739,177	$ 2,070,572	$ 2,678,621	$ 32,488,370

Heartspring, Inc.
Consolidated Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Operating Activities		
Change in net assets	$ 1,046,405	$ 1,724,480
Items not requiring (providing) operating activities cash flows		
Depreciation	790,714	714,162
Loss on disposal of property and equipment	21,367	2,347
Net realized and unrealized gains on investments	(112,937)	(595,961)
Gain on interest in net assets at Wichita Community Foundation	(77,397)	(224,763)
Contributions received restricted for acquisition of long-lived assets	(3,349,710)	(338,089)
Changes in		
Accounts receivable	(256,854)	(179,269)
Prepaid expenses and other	(89,581)	(189,668)
Contributions receivable	(88,923)	(203,118)
Accounts payable and accrued expenses	218,217	195,894
Deposits and advances	268,809	(88,488)
Net cash provided by (used in) operating activities	(1,629,890)	817,527
Investing Activities		
Purchase of property and equipment	(4,064,089)	(1,123,639)
Proceeds from disposition of property and equipment	900	1,041
Purchase of investments	(12,485)	(1,051,498)
Proceeds from sale of investments	3,648,241	1,488,824
Net cash used in investing activities	(427,433)	(685,272)
Financing Activities		
Proceeds from contributions restricted for acquisition of long-lived assets	3,349,710	338,089
Net cash provided by financing activities	3,349,710	338,089
Increase in Cash and Cash Equivalents	1,292,387	470,344
Cash and Cash Equivalents, Beginning of Year	1,005,366	535,022
Cash and Cash Equivalents, End of Year	$ 2,297,753	$ 1,005,366
Supplemental Cash Flows Information		
Accounts payable incurred for purchase of property and equipment	$ -	$ 429,183

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, 2018 and 2017, cash equivalents consisted primarily of money market accounts.

At June 30, 2018, Heartspring's cash accounts exceeded federally insured limits by approximately $2,056,000.

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 statements 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.

Self Insurance

Heartspring has elected to self-insure certain costs related to employee health and accident benefit programs. Costs resulting from noninsured losses are charged to income when incurred. Heartspring has purchased insurance that limits its exposure to individual claims to $75,000.

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.

Subsequent Events

Subsequent events have been evaluated through December 10, 2018, which is the date the financial statements were available to be issued.

Note 2: Investments and Investment Return

Investments at June 30 consisted of the following:

	2018	2017
Investments, at Fair Value		
Equity securities	$ 5,487,936	$ 6,351,669
Corporate debt securities	3,080,495	4,004,479
U.S. treasury securities	286,125	288,985
Money market funds	648,754	1,339,430
	9,503,310	11,984,563
Investments, at Cost		
Certificates of deposit	251,345	1,292,911
	$ 9,754,655	$ 13,277,474

Total investment return is comprised of the following:

	2018		
	Unrestricted	Temporarily Restricted	Total
Interest and dividend income, less investment expense of $29,029	$ 619,367	$ 70,275	$ 689,642
Net realized gains on investments reported at fair value	63,151	230,127	293,278
Net unrealized gains (losses) on investments reported at fair value	64,774	(245,115)	(180,341)
Total	$ 747,292	$ 55,287	$ 802,579

	2017		
	Unrestricted	Temporarily Restricted	Total
Interest and dividend income, less investment expense of $28,185	$ 657,051	$ 60,558	$ 717,609
Net realized gains on investments reported at fair value	15,423	56,203	71,626
Net unrealized gains on investments reported at fair value	470,760	53,575	524,335
Total	$ 1,143,234	$ 170,336	$ 1,313,570

Note 3: Contributions Receivable

Contributions receivable are temporarily restricted for a specific purpose and consisted of the following at June 30:

	2018	2017
Due within one year	$ 18,311	$ 88,400
Due in one to five years	283,635	124,623
	$ 301,946	$ 213,023

A discount rates of 4% was used for both 2018 and 2017. No allowance for uncollectible contributions was recorded in either year.

Note 4: 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:

	2018	2017
Heartspring, Inc.	$ 641,257	$ 586,397
Heartspring Foundation	4,081,643	4,059,106
	$ 4,722,900	$ 4,645,503

Note 5: Property and Equipment

Property and equipment at June 30 consists of:

	2018	2017
Land and improvements	$ 3,598,195	$ 3,599,995
Buildings	18,266,619	13,608,997
Equipment and furnishings	2,570,085	2,511,567
Construction in progress	33,906	1,146,171
	24,468,805	20,866,730
Less accumulated depreciation	9,441,740	9,090,773
	$ 15,027,065	$ 11,775,957

Note 6: Employee Health Claims

Substantially all of Heartspring's employees are eligible to participate in Heartspring's employee health insurance plan. Effective January 1, 2018, Heartspring is self-insured for health claims of participating employees up to an annual aggregate amount of $75,000 per covered employee. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible Heartspring's estimate will change by a material amount in the near term.

Activity in Heartspring's accrued employee health claims liability during 2018 is summarized as follows and is included in other accrued expenses in the balance sheets:

Balance, beginning of year	$ -
Current year claims incurred and changes in estimates for claims incurred in prior years	1,075,382
Claims and expenses paid	(439,385)
Balance, end of year	$ 635,997

Note 7: Net Assets

Temporarily Restricted Net Assets

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

	2018	2017
Financial assistance to clients	$ 1,716,131	$ 1,611,523
Pediatric Services	118,206	196,938
School	101,860	57,394
Any program	-	13,144
Other	235,465	191,573
	$ 2,171,662	$ 2,070,572

Permanently Restricted Net Assets

Permanently restricted net assets at June 30 are restricted to:

	2018	2017
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.

	2018	2017
Purpose restrictions accomplished		
Financial assistance to clients	$ 178,465	$ 136,812
Pediatric Services program expenses	16,499	140,763
School program expenses	59,272	82,152
Other	617,975	516,319
	872,211	876,046
Equipment acquired and placed in service	23,210	50,382
	$ 895,421	$ 926,428

Note 8: 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, 2018 and 2017, was:

	2018			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ 76,344	$ 1,620,107	$ 2,678,621	$ 4,375,072

	2017			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ 64,330	$ 1,576,329	$ 2,678,621	$ 4,319,280

Changes in endowment net assets for the years ended June 30, 2018 and 2017, were:

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 64,330	$ 1,576,329	$ 2,678,621	$ 4,319,280
Investment return				
Investment income	79,278	288,893	-	368,171
Net depreciation	(21,700)	(79,077)	-	(100,777)
Total investment return	57,578	209,816	-	267,394
Appropriation of endowment net assets for expenditure	(45,564)	(166,038)	-	(211,602)
Endowment net assets, end of year	$ 76,344	$ 1,620,107	$ 2,678,621	$ 4,375,072

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 20,789	$ 1,417,660	$ 2,678,621	$ 4,117,070
Investment return				
Investment income	28,839	105,094	-	133,933
Net appreciation	60,898	221,917	-	282,815
Total investment return	89,737	327,011	-	416,748
Appropriation of endowment net assets for expenditure	(46,196)	(168,342)	-	(214,538)
Endowment net assets, end of year	$ 64,330	$ 1,576,329	$ 2,678,621	$ 4,319,280

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, 2018 and 2017. 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 9: 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 $401,658 and $339,414 in 2018 and 2017, respectively.

Note 10: 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, 2018 and 2017:

		2018 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	$ 5,487,936	$ 5,487,936	$ -	$ -
Corporate debt securities	3,080,495	3,080,495	-	-
U.S. treasury securities	286,125	286,125	-	-
Money market funds	648,754	648,754	-	-
	$ 9,503,310	$ 9,503,310	$ -	$ -

		2017 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	$ 6,351,669	$ 6,351,669	$ -	$ -
Corporate debt securities	4,004,479	4,004,479	-	-
U.S. treasury securities	288,985	288,985	-	-
Money market funds	1,339,430	1,339,430	-	-
	$ 11,984,563	$ 11,984,563	$ -	$ -

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, 2018. 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 11: 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, 2018

	Program Services		
	School	Pediatric Services	Total Program Services
Salaries and wages	$ 10,492,412	$ 2,961,651	$ 13,454,063
Employee benefits	2,849,722	628,521	3,478,243
Total salaries, wages and related expenses	13,342,134	3,590,172	16,932,306
Professional fees	267,177	112,796	379,973
Supplies	440,902	96,182	537,084
Food	431,035	2,472	433,507
Facilities and insurance	690,780	147,231	838,011
Utilities	280,595	72,873	353,468
Travel and in-service training	187,124	69,527	256,651
Printing and advertising	48,775	30,998	79,773
Miscellaneous	111,174	26,668	137,842
Total expenses before depreciation	15,799,696	4,148,919	19,948,615
Depreciation	575,453	188,364	763,817
Total	$ 16,375,149	$ 4,337,283	$ 20,712,432

Management and General	Development	Total
$ 531,366	$ 387,273	$ 14,372,702
93,630	77,762	3,649,635
624,996	465,035	18,022,337
62,840	25,398	468,211
6,970	12,670	556,724
11,565	19,395	464,467
21,061	35,970	895,042
8,154	7,240	368,862
12,019	17,392	286,062
8,231	35,936	123,940
74,792	48,498	261,132
830,628	667,534	21,446,777
17,230	9,667	790,714
$ 847,858	$ 677,201	$ 22,237,491

Heartspring, Inc.
Functional Expenses
Year Ended June 30, 2017

	Program Services		
	School	Pediatric Services	Total Program Services
Salaries and wages	$ 9,581,523	$ 2,721,461	$ 12,302,984
Employee benefits	2,274,579	515,271	2,789,850
Total salaries, wages and related expenses	11,856,102	3,236,732	15,092,834
Professional fees	188,781	98,415	287,196
Supplies	383,591	76,087	459,678
Food	376,598	2,113	378,711
Facilities and insurance	588,623	103,385	692,008
Utilities	264,827	59,630	324,457
Travel and in-service training	141,953	75,852	217,805
Printing and advertising	64,363	40,477	104,840
Miscellaneous	83,804	31,482	115,286
Total expenses before depreciation	13,948,642	3,724,173	17,672,815
Depreciation	510,038	181,067	691,105
Total	$ 14,458,680	$ 3,905,240	$ 18,363,920

Management and General	Development	Total
$ 510,240	$ 408,549	$ 13,221,773
54,666	60,849	2,905,365
564,906	469,398	16,127,138
47,965	27,086	362,247
7,916	13,212	480,806
6,378	19,390	404,479
13,931	24,854	730,793
7,475	5,613	337,545
14,118	16,912	248,835
9,761	48,613	163,214
34,861	45,759	195,906
707,311	670,837	19,050,963
13,617	9,440	714,162
$ 720,928	$ 680,277	$ 19,765,125

Heartspring, Inc.
Schedules of Activities
Years Ended June 30, 2018 and 2017

	2018			
	Activities Exclusive of Fund Raising and Other Funds	Fund Raising	Other Funds	Total
Public Support and Revenue				
Public Support				
Contributions	$ -	$ 1,424,496	$ -	$ 1,424,496
Total public support	-	1,424,496	-	1,424,496
Revenue				
Fees	20,833,579	-	-	20,833,579
Investment return	198,857	-	603,722	802,579
Change in interest in assets held by Wichita Community Foundation	-	-	77,397	77,397
Other	145,845	-	-	145,845
Total public support, revenue and transfers	21,178,281	1,424,496	681,119	23,283,896
Expenses				
Program Services				
School	16,375,149	-	-	16,375,149
Pediatric Services	4,337,283	-	-	4,337,283
Total program services	20,712,432	-	-	20,712,432
Supporting Services				
Management and general	847,858	-	-	847,858
Fund raising	-	677,201	-	677,201
Total expenses	21,560,290	677,201	-	22,237,491
Change in Net Assets	$ (382,009)	$ 747,295	$ 681,119	$ 1,046,405

2017			
Activities Exclusive of Fund Raising and Other Funds	Fund Raising	Other Funds	Total
$ -	$ 1,408,921	$ -	$ 1,408,921
-	1,408,921	-	1,408,921
18,397,630	-	-	18,397,630
228,172	-	1,085,398	1,313,570
-	-	224,763	224,763
144,721	-	-	144,721
18,770,523	1,408,921	1,310,161	21,489,605
14,458,680	-	-	14,458,680
3,905,240	-	-	3,905,240
18,363,920	-	-	18,363,920
720,928	-	-	720,928
-	680,277	-	680,277
19,084,848	680,277	-	19,765,125
$ (314,325)	$ 728,644	$ 1,310,161	$ 1,724,480