Heartspring, Inc.

Independent Auditor's Report and
Consolidated Financial Statements

June 30, 2019 and 2018

Heartspring, Inc.
June 30, 2019 and 2018

Contents

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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., which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, 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, 2019 and 2018, 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 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.

Emphasis of Matter

As described in *Note 14* to the financial statements, in 2019, Heartspring adopted ASU 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities.* Our opinion is not modified with respect to this matter.

BKD, LLP

Wichita, Kansas
November 15, 2019

Heartspring, Inc.

Consolidated Statements of Financial Position

June 30, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	$ 3,862,313	$ 2,297,753
Accounts receivable, net of allowance; 2019 – $336,998; 2018 – $232,919	3,398,222	3,264,898
Prepaid expenses and other	455,491	419,620
Investments	9,932,387	9,754,655
Contributions receivable	216,515	301,946
Interest in assets held by Wichita Community Foundation	4,660,013	4,722,900
Property and equipment, net of accumulated depreciation; 2019 – $9,768,172; 2018 – $9,441,740	16,191,022	15,027,065
Total assets	$ 38,715,963	$ 35,788,837
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 442,111	$ 207,984
Accrued compensated absences	547,166	583,845
Other accrued expenses	1,373,350	1,133,605
Deposits and advances	27,580	328,628
Total liabilities	2,390,207	2,254,062
Net Assets		
Without donor restrictions	31,281,581	28,684,492
With donor restrictions		
Purpose restriction	2,365,554	2,171,662
Perpetual in nature	2,678,621	2,678,621
Total net assets	36,325,756	33,534,775
Total liabilities and net assets	$ 38,715,963	$ 35,788,837

Heartspring, Inc.
Consolidated Statements of Activities
Years Ended June 30, 2019 and 2018

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support			
Fees	$ 24,217,678	$ -	$ 24,217,678
Contributions	625,705	865,450	1,491,155
Investment return	631,754	90,313	722,067
Change in interest in assets held by Wichita Community Foundation	(62,887)	-	(62,887)
Other	216,235	-	216,235
Satisfaction of program restrictions	760,045	(760,045)	-
Satisfaction of equipment acquisition restrictions	1,826	(1,826)	-
Total revenues, gains and other support	26,390,356	193,892	26,584,248
Expenses			
School	17,788,865	-	17,788,865
Pediatric Services	4,429,016	-	4,429,016
Total program services	22,217,881	-	22,217,881
Management and general	896,027	-	896,027
Fund raising	679,359	-	679,359
Total expenses	23,793,267	-	23,793,267
Change in Net Assets	2,597,089	193,892	2,790,981
Net Assets, Beginning of Year	28,684,492	4,850,283	33,534,775
Net Assets, End of Year	$ 31,281,581	$ 5,044,175	$ 36,325,756

2018		
Without Donor Restrictions	With Donor Restrictions	Total
$ 20,833,579	$ -	$ 20,833,579
483,272	941,224	1,424,496
747,292	55,287	802,579
77,397	-	77,397
145,845	-	145,845
872,211	(872,211)	-
23,210	(23,210)	-
23,182,806	101,090	23,283,896
16,375,149	-	16,375,149
4,337,283	-	4,337,283
20,712,432	-	20,712,432
847,858	-	847,858
677,201	-	677,201
22,237,491	-	22,237,491
945,315	101,090	1,046,405
27,739,177	4,749,193	32,488,370
$ 28,684,492	$ 4,850,283	$ 33,534,775

Heartspring, Inc.
Consolidated Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Operating Activities		
Change in net assets	$ 2,790,981	$ 1,046,405
Items not requiring (providing) operating activities cash flows		
Depreciation	812,448	790,714
Loss on disposal of property and equipment	909	21,367
Net realized and unrealized gains on investments	(93,562)	(112,937)
(Gain) loss on interest in net assets at Wichita Community Foundation	62,887	(77,397)
Contributions received restricted for acquisition of long-lived assets	(190,700)	(3,349,710)
Changes in		
Accounts receivable	(133,324)	(256,854)
Prepaid expenses and other	(35,871)	(89,581)
Contributions receivable	85,431	(88,923)
Accounts payable and accrued expenses	437,193	218,217
Deposits and advances	(301,048)	268,809
Net cash provided by (used in) operating activities	3,435,344	(1,629,890)
Investing Activities		
Purchase of property and equipment	(1,978,194)	(4,064,089)
Proceeds from disposition of property and equipment	880	900
Purchase of investments	(3,441,216)	(12,485)
Proceeds from sale of investments	3,357,046	3,648,241
Net cash used in investing activities	(2,061,484)	(427,433)
Financing Activities		
Proceeds from contributions restricted for acquisition of long-lived assets	190,700	3,349,710
Net cash provided by financing activities	190,700	3,349,710
Increase in Cash and Cash Equivalents	1,564,560	1,292,387
Cash and Cash Equivalents, Beginning of Year	2,297,753	1,005,366
Cash and Cash Equivalents, End of Year	$ 3,862,313	$ 2,297,753

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 restricted by donors 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 donor restricted funds, with original maturities of three months or less to be cash equivalents. At June 30, 2019 and 2018, cash equivalents consisted primarily of money market accounts.

At June 30, 2019, Heartspring's cash accounts exceeded federally insured limits by approximately $3,679,000.

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 with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

Heartspring maintains pooled investment accounts for its donor 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

Net Assets With Donor Restrictions

Net assets with donor restrictions are those whose use by Heartspring has been limited by donors to a specific time period or purpose or 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 received with a donor stipulation that limits their use are reported as changes in net assets with donor restrictions. When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified and reported in the statements of activities as an increase in net assets without donor 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 changes in net assets with donor restrictions 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 supporting 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. Certain costs 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 November 15, 2019, 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:

	2019	2018
Investments, at Fair Value		
Equity securities	$ 5,518,037	$ 5,487,936
Corporate debt securities	3,325,033	3,080,495
U.S. treasury securities	398,669	286,125
Money market funds	690,648	648,754
	9,932,387	9,503,310
Investments, at Cost		
Certificates of deposit	-	251,345
	$ 9,932,387	$ 9,754,655

Total investment return is comprised of the following:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Interest and dividend income, less investment expense of $27,912	$ 548,633	$ 79,872	$ 628,505
Net realized gains on investments reported at fair value	12,166	44,334	56,500
Net unrealized gains (losses) on investments reported at fair value	70,955	(33,893)	37,062
Total	$ 631,754	$ 90,313	$ 722,067

	2018		
	Without Donor Restrictions	With Donor Restrictions	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

Note 3: Contributions Receivable

Contributions receivable with donor restrictions consisted of the following at June 30:

	2019	2018
Due within one year	$ 24,444	$ 18,311
Due in one to five years	218,071	283,635
	242,515	301,946
Less allowance for uncollectible pledges	(26,000)	-
	$ 216,515	$ 301,946

A discount rate of 4% was used for both 2019 and 2018.

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:

	2019	2018
Heartspring, Inc.	$ 637,158	$ 641,257
Heartspring Foundation	4,022,855	4,081,643
	$ 4,660,013	$ 4,722,900

Note 5: Property and Equipment

Property and equipment at June 30 consists of:

	2019	2018
Land and improvements	$ 3,584,479	$ 3,598,195
Buildings	19,729,043	18,266,619
Equipment and furnishings	2,645,672	2,570,085
Construction in progress	-	33,906
	25,959,194	24,468,805
Less accumulated depreciation	9,768,172	9,441,740
	$ 16,191,022	$ 15,027,065

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 2019 and 2018 is summarized as follows and is included in other accrued expenses in the balance sheets:

	2019	2018
Balance, beginning of year	$ 635,997	$ -
Current year claims incurred and changes in estimates for claims incurred in prior years	161,523	1,075,382
Claims and expenses paid	(604,520)	(439,385)
Balance, end of year	$ 193,000	$ 635,997

Note 7: Net Assets with Donor Restrictions

Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes or periods:

	2019	2018
Subject to expenditure for specified purpose		
Financial assistance to clients	$ 1,906,524	$ 1,716,131
Pediatric Services	124,271	118,206
School	117,351	101,860
Other	217,408	235,465
	$ 2,365,554	$ 2,171,662

	2019	2018
Endowments		
Subject to appropriation or expenditure		
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
Other	167,510	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.

	2019	2018
Satisfaction of purpose restrictions		
Financial assistance to clients	$ 25,280	$ 178,465
Pediatric Services program expenses	135,446	16,499
School program expenses	84,590	59,272
Other	514,729	617,975
	760,045	872,211
Equipment acquired and placed in service	1,826	23,210
	$ 761,871	$ 895,421

Note 8: Liquidity and Availability

Heartspring's financial assets available within one year of the balance sheet date for general expenditure are:

	2019	2018
Financial assets at year end		
Cash and cash equivalents	$ 3,862,313	$ 2,297,753
Patient accounts receivable, net	3,398,222	3,264,898
Contributions receivable	216,515	301,946
Investments	9,932,387	9,754,655
Interest in assets held by Wichita Community Foundation	4,660,013	4,722,900
Total financial assets	22,069,450	20,342,152
Less amounts not available to be used within one year		
Contributions receivable	218,071	283,635
Investments	9,932,387	9,754,655
Interest in assets held by Wichita Community Foundation	4,660,013	4,722,900
Financial assets not available to be used within one year	14,810,471	14,761,190
Financial assets available to meet general expenditures within one year	$ 7,258,979	$ 5,580,962

Investments are not available for general expenditure within the next year. However, these amounts could be made available, if necessary.

Note 9: Functional Expenses

Heartspring provides services to students across the United States. Certain costs attributable to more than one function have been allocated among the program services and general and administrative functional expense classifications based on the department in which the expense was incurred. The following schedule presents the natural classification of expenses by function as follows:

	2019					
	Program Services					
	School	Pediatric Services	Total Program Services	Management and General	Development	Total
Salaries and wages	$ 11,973,074	$ 3,229,711	$ 15,202,785	$ 586,816	$ 369,899	$ 16,159,500
Employee benefits	2,271,237	480,007	2,751,244	74,372	43,247	2,868,863
Total salaries, wages and related expenses	14,244,311	3,709,718	17,954,029	661,188	413,146	19,028,363
Professional fees	308,002	113,905	421,907	62,770	33,316	517,993
Supplies	595,294	109,353	704,647	18,162	11,624	734,433
Food	467,121	2,100	469,221	10,358	20,024	499,603
Facilities and insurance	807,383	149,614	956,997	23,066	30,182	1,010,245
Utilities	274,270	66,033	340,303	7,550	6,542	354,395
Travel and in-service training	267,637	32,707	300,344	20,743	17,309	338,396
Printing and advertising	64,662	26,785	91,447	7,203	48,431	147,081
Miscellaneous	157,011	35,630	192,641	69,127	88,542	350,310
Total expenses before depreciation	17,185,691	4,245,845	21,431,536	880,167	669,116	22,980,819
Depreciation	603,174	183,171	786,345	15,860	10,243	812,448
Total	$ 17,788,865	$ 4,429,016	$ 22,217,881	$ 896,027	$ 679,359	$ 23,793,267

	2018					
	Program Services					
	School	Pediatric Services	Total Program Services	Management and General	Development	Total
Salaries and wages	$ 10,492,412	$ 2,961,651	$ 13,454,063	$ 531,366	$ 387,273	$ 14,372,702
Employee benefits	2,849,722	628,521	3,478,243	93,630	77,762	3,649,635
Total salaries, wages and related expenses	13,342,134	3,590,172	16,932,306	624,996	465,035	18,022,337
Professional fees	267,177	112,796	379,973	62,840	25,398	468,211
Supplies	440,902	96,182	537,084	6,970	12,670	556,724
Food	431,035	2,472	433,507	11,565	19,395	464,467
Facilities and insurance	690,780	147,231	838,011	21,061	35,970	895,042
Utilities	280,595	72,873	353,468	8,154	7,240	368,862
Travel and in-service training	187,124	69,527	256,651	12,019	17,392	286,062
Printing and advertising	48,775	30,998	79,773	8,231	35,936	123,940
Miscellaneous	111,174	26,668	137,842	74,792	48,498	261,132
Total expenses before depreciation	15,799,696	4,148,919	19,948,615	830,628	667,534	21,446,777
Depreciation	575,453	188,364	763,817	17,230	9,667	790,714
Total	$ 16,375,149	$ 4,337,283	$ 20,712,432	$ 847,858	$ 677,201	$ 22,237,491

Note 10: 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 is subject to the *State of Kansas Prudent Management of Institutional Funds Act* (KS UPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those assets are time restricted. Heartspring's governing body has interpreted KS UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates to the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, Heartspring considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. Heartspring has interpreted KS UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. In addition, in accordance with KS UPMIFA, 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, 2019 and 2018, was:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	$ 99,538	$ 4,383,251	$ 4,482,789

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	$ 76,344	$ 4,298,728	$ 4,375,072

Changes in endowment net assets for the years ended June 30, 2019 and 2018, were:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 76,344	$ 4,298,728	$ 4,375,072
Investment return			
Investment income	32,495	118,416	150,911
Net depreciation	13,627	49,659	63,286
Total investment return	46,122	168,075	214,197
Appropriation of endowment net assets for expenditure	(22,928)	(83,552)	(106,480)
Endowment net assets, end of year	$ 99,538	$ 4,383,251	$ 4,482,789

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 64,330	$ 4,254,950	$ 4,319,280
Investment return			
Investment income	79,278	288,893	368,171
Net appreciation	(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	$ 4,298,728	$ 4,375,072

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 KS UPMIFA. No such deficiencies existed at June 30, 2019 and 2018.

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.

Note 11: 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 $490,152 and $401,658 in 2019 and 2018, respectively.

Note 12: 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, 2019 and 2018:

		2019 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	$ 5,518,037	$ 5,518,037	$ -	$ -
Corporate debt securities	3,325,033	3,325,033	-	-
U.S. treasury securities	398,669	398,669	-	-
Money market funds	690,347	690,347	-	-
	$ 9,932,086	$ 9,932,086	$ -	$ -

		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	$ -	$ -

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, 2019. 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 13: 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.

Note 14: Change in Accounting Principle

In 2019, Heartspring adopted ASU 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*. A summary of the changes is as follows:

Balance Sheet

The balance sheet distinguishes between two new classes of net assets – those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets – unrestricted, temporarily restricted and permanently restricted.

Statement of Operations and Changes in Net Assets

Expenses are reported by both nature and function in one location

Notes to the Financial Statements

Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one-year from the date of the balance sheet.

These changes had no impact on previously reported total change in net assets.

Note 15: Future Changes in Accounting Principle

Revenue Recognition

The Financial Accounting Standards Board (FASB) amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for annual periods beginning after December 15, 2018, for nonpublic entities (December 15, 2017, for not-for-profits that are conduit debt obligors), and any interim periods within annual reporting periods that begin after December 15, 2019, for nonpublic entities (December 15, 2018, for not-for-profits that are conduit debt obligors). Heartspring is in the process of evaluating the impact the amendment will have on the financial statements.

Accounting for Leases

FASB amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2019 (2018 for not-for-profits that are conduit debt obligors), and any interim periods within annual reporting periods that begin after December 15, 2020 (2018 for not-for-profits that are conduit debt obligors). A board decision was reached by the FASB at its October 16, 2019, meeting to delay the effective date of Topic 842 by one year for these entities (*i.e.* fiscal year beginning after December 15, 2020). Issuance of a final ASU related to this decision is expected later in 2019. Heartspring is evaluating the impact the standard will have on the financial statements; however, the standard is expected to have a material impact on the consolidated financial statements due to the recognition of additional assets and liabilities for operating leases.

Supplementary Information

Heartspring, Inc.
Schedules of Activities
Years Ended June 30, 2019 and 2018

	2019			
	Activities Exclusive of Fund Raising and Other Funds	Fund Raising	Other Funds	Total
Public Support and Revenue				
Public Support				
Contributions	$ -	$ 1,491,155	$ -	$ 1,491,155
Total public support	-	1,491,155	-	1,491,155
Revenue				
Fees	24,217,678	-	-	24,217,678
Investment return	244,464	-	477,603	722,067
Change in interest in assets held by Wichita Community Foundation	-	-	(62,887)	(62,887)
Other	216,235	-	-	216,235
Total public support, revenue and transfers	24,678,377	1,491,155	414,716	26,584,248
Expenses				
Program Services				
School	17,788,865	-	-	17,788,865
Pediatric Services	4,429,016	-	-	4,429,016
Total program services	22,217,881	-	-	22,217,881
Supporting Services				
Management and general	896,027	-	-	896,027
Fund raising	-	679,359	-	679,359
Total expenses	23,113,908	679,359	-	23,793,267
Change in Net Assets	$ 1,564,469	$ 811,796	$ 414,716	$ 2,790,981

2018			
Activities Exclusive of Fund Raising and Other Funds	Fund Raising	Other Funds	Total
$ -	$ 1,424,496	$ -	$ 1,424,496
-	1,424,496	-	1,424,496
20,833,579	-	-	20,833,579
198,857	-	603,722	802,579
-	-	77,397	77,397
145,845	-	-	145,845
21,178,281	1,424,496	681,119	23,283,896
16,375,149	-	-	16,375,149
4,337,283	-	-	4,337,283
20,712,432	-	-	20,712,432
847,858	-	-	847,858
-	677,201	-	677,201
21,560,290	677,201	-	22,237,491
$ (382,009)	$ 747,295	$ 681,119	$ 1,046,405