Heartspring, Inc.

Independent Auditor's Report and
Consolidated Financial Statements

June 30, 2021 and 2020

Heartspring, Inc.
June 30, 2021 and 2020

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, 2021 and 2020, 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, 2021 and 2020, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in *Note 14* to the financial statements, in 2021, Heartspring, Inc. adopted new accounting guidance regarding recognition of revenue with customers. Our conclusion is not modified with respect to this matter.

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.

BKD, LLP

Wichita, Kansas
December 13, 2021

Heartspring, Inc.
Consolidated Statements of Financial Position
June 30, 2021 and 2020

	2021	2020
Assets		
Cash and cash equivalents	$ 4,120,528	$ 7,938,630
Accounts receivable, net of allowance; 2021 – $140,676; 2020 – $199,906	2,972,081	3,010,366
Prepaid expenses and other	475,556	439,064
Investments	14,417,595	10,266,032
Contributions receivable	59,121	198,620
Interest in assets held by Wichita Community Foundation	5,353,544	4,460,416
Property and equipment, net of accumulated depreciation; 2021 – $10,829,907; 2020 – $10,647,117	15,511,994	16,075,952
Total assets	$ 42,910,419	$ 42,389,080
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 534,783	$ 531,454
Accrued compensated absences	418,267	602,788
Other accrued expenses	1,246,855	891,294
Deposits and advances	20,800	15,563
Deferred revenue	-	3,536,600
Total liabilities	2,220,705	5,577,699
Net Assets		
Without donor restrictions	34,375,818	31,728,519
With donor restrictions		
Purpose restriction	3,635,275	2,404,241
Perpetual in nature	2,678,621	2,678,621
Total net assets	40,689,714	36,811,381
Total liabilities and net assets	$ 42,910,419	$ 42,389,080

Heartspring, Inc.
Consolidated Statements of Activities
Years Ended June 30, 2021 and 2020

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support			
Fees	$ 24,036,318	$ -	$ 24,036,318
Contributions	625,413	622,691	1,248,104
Investment return	1,495,641	1,021,962	2,517,603
Change in interest in assets held by Wichita Community Foundation	893,128	-	893,128
Paycheck Protection Program	3,577,762	-	3,577,762
Other	88,984	-	88,984
Satisfaction of program restrictions	378,887	(378,887)	-
Satisfaction of equipment acquisition restrictions	34,732	(34,732)	-
Total revenues, gains and other support	31,130,865	1,231,034	32,361,899
Expenses			
School	21,609,218	-	21,609,218
Pediatric Services	4,931,999	-	4,931,999
Total program services	26,541,217	-	26,541,217
Management and general	1,241,572	-	1,241,572
Fund raising	700,777	-	700,777
Total expenses	28,483,566	-	28,483,566
Change in Net Assets	2,647,299	1,231,034	3,878,333
Net Assets, Beginning of Year	31,728,519	5,082,862	36,811,381
Net Assets, End of Year	$ 34,375,818	$ 6,313,896	$ 40,689,714

2020		
Without Donor Restrictions	**With Donor Restrictions**	**Total**
$ 24,116,479	$ -	$ 24,116,479
773,821	505,523	1,279,344
648,898	66,714	715,612
(199,597)	-	(199,597)
-	-	-
173,056	-	173,056
498,436	(498,436)	-
35,114	(35,114)	-
26,046,207	38,687	26,084,894
19,414,027	-	19,414,027
4,499,067	-	4,499,067
23,913,094	-	23,913,094
1,033,757	-	1,033,757
652,418	-	652,418
25,599,269	-	25,599,269
446,938	38,687	485,625
31,281,581	5,044,175	36,325,756
$ 31,728,519	$ 5,082,862	$ 36,811,381

Heartspring, Inc.
Consolidated Statements of Cash Flows
Years Ended June 30, 2021 and 2020

	2021	2020
Operating Activities		
Change in net assets	$ 3,878,333	$ 485,625
Items not requiring (providing) operating activities cash flows		
Depreciation	871,118	878,946
Loss on disposal of property and equipment	45,824	-
Net realized and unrealized gains on investments	(2,189,407)	(33,359)
(Gain) loss on interest in net assets at Wichita Community Foundation	(893,128)	199,597
Forgiveness income from Paycheck Protection Program	(3,577,762)	-
Changes in		
Accounts receivable	38,285	387,856
Prepaid expenses and other	(36,492)	16,427
Contributions receivable	139,499	17,895
Accounts payable and accrued expenses	215,531	(337,091)
Deposits and advances	5,237	(12,017)
Deferred revenue	-	3,536,600
Net cash provided by (used in) operating activities	(1,502,962)	5,140,479
Investing Activities		
Purchase of property and equipment	(356,984)	(763,876)
Proceeds from disposition of property and equipment	4,000	-
Purchase of investments	(2,000,000)	(1,280,253)
Proceeds from sale of investments	37,844	979,967
Net cash used in investing activities	(2,315,140)	(1,064,162)
Increase (Decrease) in Cash and Cash Equivalents	(3,818,102)	4,076,317
Cash and Cash Equivalents, Beginning of Year	7,938,630	3,862,313
Cash and Cash Equivalents, End of Year	$ 4,120,528	$ 7,938,630

Heartspring, Inc.
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

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.

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 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, 2021 and 2020, cash equivalents consisted primarily of money market accounts.

At June 30, 2021, Heartspring's cash accounts exceeded federally insured limits by approximately $3,964,000.

Investments

Heartspring measures securities, other than investments that qualify for the equity method of accounting, at fair value.

Net Investment Return

Investment return includes dividend, 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, less external and direct internal investment expenses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the statements of activities 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 acquisitions over $2,000 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

Long-lived Asset Impairment

Heartspring evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended June 30, 2021 and 2020.

Paycheck Protection Program (PPP) Loan

Heartspring received a PPP loan established by the *Coronavirus Aide, Relief and Economic Security Act* (*CARES Act*) and has elected to account for the funding as a conditional contribution by applying ASC Topic 958-605, *Revenue Recognition*. Revenue is recognized when conditions are met, which include meeting full-time equivalent (FTE) and salary reduction requirements and incurring eligible expenditures. The PPP loan was forgiven in June 2021 and the income recognized for the year ending June 30, 2021, is recorded as income in the accompanying consolidated statements of activities.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor or certain grantor restrictions.

Net assets with donor restrictions are subject to donor or certain grantor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other restrictions are perpetual in nature, where the donor or grantor stipulates that resources be maintained in perpetuity.

Fees Revenue

For the year ended June 30, 2020, 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.

Program Fee Revenue

For the year ended June 30, 2021, revenue from contracts with students for school services, including special education and room and board, is reported at the amount that reflects the consideration to which Heartspring expects to be entitled in exchange for providing instruction and housing, food and other services. These amounts are due from third-party payers and others and typically does not include variable consideration. The nature, amount, timing and uncertainty of revenue and cash flows are affected by the business practices of the third-party payers.

Revenue is recognized as performance obligations are satisfied, which is ratably over the academic term. Generally, Heartspring bills monthly. If a student withdraws mid-month and proper notice was given pe the contract terms, fees will be pro-rated for the month.

For the year ended June 30, 2021, Heartspring recognized revenue of $20,494,869 from program fees that transfer to the student over time.

Therapy Fee Revenue

For the year ended June 30, 2021, therapy fee revenue is recognized as Heartspring satisfies performance obligations under its contracts with patients. Therapy fee revenue is reported at the estimated transaction price or amount that reflects the consideration to which Heartspring expects to be entitled in exchange for providing patient care. Heartspring determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with Heartspring's policies and implicit price concessions provided to uninsured patients.

Heartspring determines its estimates of explicit price concessions which represent adjustments and discounts based on contractual agreements, its discount policies and historical experience by payor groups. Heartspring determines its estimate of implicit price concessions based on its historical collection experience by classes of patients. The estimated amounts also include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations by third-party payors.

For the year ended June 30, 2021, Heartspring recognized revenue of $3,541,449 from therapy fees that transfer to the patient over time.

Contributions

Contributions are provided to Heartspring either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

Nature of the Gift	Value Recognized
Conditional gifts, with or without restriction	
Gifts that depend on Heartspring overcoming a donor-imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, *i.e.* the donor-imposed barrier is met
Unconditional gifts, with or without restriction	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period the gift is received are recorded as revenue with donor restrictions and then released from restriction.

Conditional contributions and investment income having donor stipulations which are satisfied in the period the gift is received and the investment income is earned are recorded as revenue 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.

See *Note 8* for the natural classification detail of expenses by function.

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 $80,000.

Subsequent Events

Subsequent events have been evaluated through December 13, 2021, which is the date the financial statements were available to be issued.

Note 2: Contributions Receivable

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

	2021	2020
Due within one year	$ 59,121	$ 154,500
Due in one to five years	-	44,120
	59,121	198,620
Less allowance for uncollectible pledges	-	-
	$ 59,121	$ 198,620

A discount rate of 4% was used for both 2021 and 2020.

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. At June 30 the cumulative amount of the retained beneficial interest included in the statements of financial position consists of:

	2021	2020
Heartspring, Inc.	$ 734,010	$ 611,198
Heartspring Foundation	4,619,534	3,849,218
	$ 5,353,544	$ 4,460,416

Note 4: Property and Equipment

Property and equipment at June 30 consists of:

	2021	2020
Land and improvements	$ 3,530,894	$ 3,655,816
Buildings	20,349,477	20,285,269
Equipment and furnishings	2,313,976	2,781,984
	26,341,901	26,723,069
Less accumulated depreciation	10,829,907	10,647,117
	$ 15,511,994	$ 16,075,952

Note 5: Employee Health Claims

Substantially all of Heartspring's employees are eligible to participate in Heartspring's employee health insurance plan. Heartspring is self-insured for health claims of participating employees up to an annual aggregate amount of $80,000 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 2021 and 2020 is summarized as follows and is included in other accrued expenses in the balance sheets:

	2021	2020
Balance, beginning of year	$ 166,000	$ 193,000
Current year claims incurred and changes in estimates for claims incurred in prior years	1,252,660	791,990
Claims and expenses paid	(1,262,660)	(818,990)
Balance, end of year	$ 156,000	$ 166,000

Note 6: Net Assets with Donor Restrictions

Net Assets with Donor Restrictions

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

	2021	2020
Subject to expenditure for specified purpose		
Financial assistance to clients	$ 2,850,410	$ 2,015,918
General operations and other	596,904	192,527
Pediatric Services	106,121	99,504
School	81,840	96,292
	$ 3,635,275	$ 2,404,241

	2021	2020
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
Other	167,510	167,510
	$ 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.

	2021	2020
Satisfaction of purpose restrictions		
Financial assistance to clients	$ 29,513	$ 43,105
Pediatric Services program expenses	129,624	103,689
School program expenses	131,350	97,455
Other	88,400	254,187
	378,887	498,436
Equipment acquired and placed in service	34,732	35,114
	$ 413,619	$ 533,550

Note 7: Liquidity and Availability

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

	2021	2020
Financial assets at year end		
Cash and cash equivalents	$ 4,120,528	$ 7,938,630
Patient accounts receivable, net	2,972,081	3,010,366
Contributions receivable	59,121	198,620
Investments	14,417,595	10,266,032
Interest in assets held by Wichita Community Foundation	5,353,544	4,460,416
Total financial assets	26,922,869	25,874,064
Less amounts not available to be used within one year		
Contributions receivable	-	44,120
Investments	14,417,595	10,266,032
Interest in assets held by Wichita Community Foundation	5,353,544	4,460,416
Financial assets not available to be used within one year	19,771,139	14,770,568
Financial assets available to meet general expenditures within one year	$ 7,151,730	$ 11,103,496

Investments are considered longer term in nature and not available for general expenditure within the next year unless certain approval processes take place. However, these amounts could be made available, if necessary.

Note 8: 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:

	2021					
	Program Services					
	School	Pediatric Services	Total Program Services	Management and General	Development	Total
Salaries and wages	$ 14,303,970	$ 3,478,088	$ 17,782,058	$ 796,000	$ 410,358	$ 18,988,416
Employee benefits	3,600,447	756,372	4,356,819	83,080	75,219	4,515,118
Total salaries, wages and related expenses	17,904,417	4,234,460	22,138,877	879,080	485,577	23,503,534
Professional fees	311,146	92,914	404,060	154,475	33,608	592,143
Supplies	665,197	125,521	790,718	24,573	35,040	850,331
Food	596,802	3,735	600,537	7,032	16,474	624,043
Facilities and insurance	771,591	152,583	924,174	22,038	29,224	975,436
Utilities	366,928	76,065	442,993	9,047	5,240	457,280
Travel and in-service training	129,721	46,195	175,916	12,479	5,200	193,595
Printing and advertising	66,654	24,362	91,016	10,537	44,552	146,105
Miscellaneous	98,223	28,642	126,865	107,236	35,880	269,981
Total expenses before depreciation	20,910,679	4,784,477	25,695,156	1,226,497	690,795	27,612,448
Depreciation	698,539	147,522	846,061	15,075	9,982	871,118
Total	$ 21,609,218	$ 4,931,999	$ 26,541,217	$ 1,241,572	$ 700,777	$ 28,483,566

	2020					
	Program Services					
	School	Pediatric Services	Total Program Services	Management and General	Development	Total
Salaries and wages	$ 12,937,554	$ 3,162,226	$ 16,099,780	$ 631,615	$ 387,343	$ 17,118,738
Employee benefits	2,926,088	563,733	3,489,821	76,243	62,738	3,628,802
Total salaries, wages and related expenses	15,863,642	3,725,959	19,589,601	707,858	450,081	20,747,540
Professional fees	320,897	100,588	421,485	172,319	29,950	623,754
Supplies	570,605	120,562	691,167	19,900	11,177	722,244
Food	525,850	4,076	529,926	12,080	18,358	560,364
Facilities and insurance	834,420	158,028	992,448	22,152	38,899	1,053,499
Utilities	281,284	61,515	342,799	6,698	6,343	355,840
Travel and in-service training	255,969	90,499	346,468	30,306	9,947	386,721
Printing and advertising	73,040	24,577	97,617	5,271	42,852	145,740
Miscellaneous	17,937	31,180	49,117	41,746	33,758	124,621
Total expenses before depreciation	18,743,644	4,316,984	23,060,628	1,018,330	641,365	24,720,323
Depreciation	670,383	182,083	852,466	15,427	11,053	878,946
Total	$ 19,414,027	$ 4,499,067	$ 23,913,094	$ 1,033,757	$ 652,418	$ 25,599,269

Note 9: Endowment

Heartspring is subject to the *State of Kansas Prudent Management of Institutional Funds Act* (KS UPMIFA). As a result, Heartspring classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those assets are time restricted until the governing body appropriates such amounts for expenditures. Most of those net assets also are subject to purpose restrictions that must be met before being reclassified as net assets without donor restrictions.

Additionally, 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

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.

The composition of net assets by type of endowment fund at June 30, 2021 and 2020, was:

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	$ -	$ 2,678,621	$ 2,678,621
Accumulated investment gains	-	2,852,195	2,852,195
Total endowment funds	$ -	$ 5,530,816	$ 5,530,816

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	$ -	$ 2,678,621	$ 2,678,621
Accumulated investment gains	115,325	1,762,157	1,877,482
Total endowment funds	$ 115,325	$ 4,440,778	$ 4,556,103

Changes in endowment net assets for the years ended June 30, 2021 and 2020, were:

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 115,325	$ 4,440,778	$ 4,556,103
Investment return, net	-	1,149,510	1,149,510
Appropriation of endowment net assets for expenditure	(115,325)	(59,472)	(174,797)
Endowment net assets, end of year	$ -	$ 5,530,816	$ 5,530,816

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 99,538	$ 4,383,251	$ 4,482,789
Investment return, net	43,058	156,904	199,962
Appropriation of endowment net assets for expenditure	(27,271)	(99,377)	(126,648)
Endowment net assets, end of year	$ 115,325	$ 4,440,778	$ 4,556,103

Investment and Spending Policies

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 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.

Underwater Endowments

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.

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, 2021 and 2020.

Note 10: 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 $587,366 and $509,489 in 2021 and 2020, respectively.

Note 11: 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, 2021 and 2020:

		2021 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	$ 7,928,615	$ 7,928,615	$ -	$ -
Corporate debt securities	3,920,866	3,920,866	-	-
U.S. treasury securities	389,319	389,319	-	-
Money market mutual funds	2,178,795	2,178,795	-	-
	$ 14,417,595	$ 14,417,595	$ -	$ -

		2020 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	$ 5,789,050	$ 5,789,050	$ -	$ -
Corporate debt securities	3,888,244	3,888,244	-	-
U.S. treasury securities	369,821	369,821	-	-
Money market mutual funds	218,917	218,917	-	-
	$ 10,266,032	$ 10,266,032	$ -	$ -

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, 2021.

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 12: 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.

General Litigation

Heartspring is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position, results of operations and cash flows of Heartspring. Events could occur that would change this estimate materially in the near term.

Note 13: COVID-19 Impact

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which may negatively affect the financial position, results of operations and cash flows of Heartspring. Outpatient services were suspended from July 13 through August 10, 2020. In November, additional COVID-19 outbreaks in Sedgwick County increased outpatient cancellations and slowed school enrollments, further impacting revenue. Heartspring paid additional wages of $1.1 million in Hero pay, hazard pay and COVID leave. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

Note 14: Change in Accounting Principle

On July 1, 2020, Heartspring adopted Topic 606 *Revenue from Contracts with Customers* (Topic 606), using a modified retrospective method of adoption to all contracts with customers (patients) at July 1, 2020.

The core guidance in Topic 606 is to recognize revenue to depict the transfer of promised goods or services to patients in amounts that reflect the consideration to which Heartspring expects to be entitled in exchange for those goods or services.

The amount to which Heartspring expects to be entitled is calculated as the transaction price and recorded as revenue in exchange for providing patient services to its patients.

Adoption of Topic 606 resulted in changes in presentation of financial statements and related disclosures in the notes to the consolidated financial statements.

Prior to the adoption of Topic 606, the majority of the provision for uncollectible accounts related to patients without insurance, as well as patient responsibility balances for co-pays, co-insurance and deductibles for patients with insurance. Under Topic 606, the estimated amounts due from patients for which Heartspring does not expect to be entitled or collect from the patients are considered implicit price concessions and excluded from Heartspring's estimation of the transaction price or revenue recorded.

The adoption had no impact on net income or net cash provided by operating activities.

Accounting Policies and Practical Expedients Elected

Heartspring has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from customers and third parties for the effects of a significant financing component due to Heartspring's expectation that the period between the time the service is provided to a customer and the time the customer or a third-party payer pays for that service will be one year or less.

For incremental costs of obtaining a contract, Heartspring elected a practical expedient, which permits an entity to recognize incremental costs to obtain a contract as an expense when incurred if the amortization period is less than one year. This election had an immaterial effect on the Heartspring's financial statements.

Heartspring has elected the practical expedient allowed under FASB ASC 606-10-55-18 to measure progress of revenue recognized over time. This practical expedient allows an entity to recognize revenue in the amount of consideration to which the entity has the right to invoice when the amount that the entity has the right to invoice corresponds directly to the value transferred to the customer.

Supplementary Information

Heartspring, Inc.
Schedules of Activities
Years Ended June 30, 2021 and 2020

	2021			
	Activities Exclusive of Fund Raising and Other Funds	Fund Raising	Other Funds	Total
Public Support and Revenue				
Public Support				
Contributions	$ -	$ 1,248,104	$ -	$ 1,248,104
Total public support	-	1,248,104	-	1,248,104
Revenue				
Fees	24,036,318	-	-	24,036,318
Investment return	231,775	-	2,285,828	2,517,603
Change in interest in assets held by Wichita Community Foundation	-	-	893,128	893,128
Paycheck Protection Program	3,577,762	-	-	3,577,762
Other	88,984	-	-	88,984
Total public support, revenue and transfers	27,934,839	1,248,104	3,178,956	32,361,899
Expenses				
Program Services				
School	21,609,218	-	-	21,609,218
Pediatric Services	4,931,999	-	-	4,931,999
Total program services	26,541,217	-	-	26,541,217
Supporting Services				
Management and general	1,241,572	-	-	1,241,572
Fund raising	-	700,777	-	700,777
Total expenses	27,782,789	700,777	-	28,483,566
Change in Net Assets	$ 152,050	$ 547,327	$ 3,178,956	$ 3,878,333

2020			
Activities Exclusive of Fund Raising and Other Funds	Fund Raising	Other Funds	Total
$ -	$ 1,279,344	$ -	$ 1,279,344
-	1,279,344	-	1,279,344
24,116,479	-	-	24,116,479
209,072	-	506,540	715,612
-	-	(199,597)	(199,597)
-	-	-	-
173,056	-	-	173,056
24,498,607	1,279,344	306,943	26,084,894
19,414,027	-	-	19,414,027
4,499,067	-	-	4,499,067
23,913,094	-	-	23,913,094
1,033,757	-	-	1,033,757
-	652,418	-	652,418
24,946,851	652,418	-	25,599,269
$ (448,244)	$ 626,926	$ 306,943	$ 485,625