Heartspring, Inc.

Independent Auditor's Report and
Consolidated Financial Statements

June 30, 2020 and 2019

Heartspring, Inc.
June 30, 2020 and 2019

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, 2020 and 2019, 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, 2020 and 2019, 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.

BKD, LLP

Wichita, Kansas
December 21, 2020

Heartspring, Inc.

Consolidated Statements of Financial Position

June 30, 2020 and 2019

	2020	2019
Assets		
Cash and cash equivalents	$ 7,938,630	$ 3,862,313
Accounts receivable, net of allowance; 2020 – $199,906; 2019 – $336,998	3,010,366	3,398,222
Prepaid expenses and other	439,064	455,491
Investments	10,266,032	9,932,387
Contributions receivable	198,620	216,515
Interest in assets held by Wichita Community Foundation	4,460,416	4,660,013
Property and equipment, net of accumulated depreciation; 2020 – $10,647,117; 2019 – $9,768,172	16,075,952	16,191,022
Total assets	$ 42,389,080	$ 38,715,963
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 531,454	$ 442,111
Accrued compensated absences	602,788	547,166
Other accrued expenses	891,294	1,373,350
Deposits and advances	15,563	27,580
Deferred revenue	3,536,600	-
Total liabilities	5,577,699	2,390,207
Net Assets		
Without donor restrictions	31,728,519	31,281,581
With donor restrictions		
Purpose restriction	2,404,241	2,365,554
Perpetual in nature	2,678,621	2,678,621
Total net assets	36,811,381	36,325,756
Total liabilities and net assets	$ 42,389,080	$ 38,715,963

Heartspring, Inc.
Consolidated Statements of Activities
Years Ended June 30, 2020 and 2019

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support			
Fees	$ 24,116,479	$ -	$ 24,116,479
Contributions	773,821	505,523	1,279,344
Investment return	648,898	66,714	715,612
Change in interest in assets held by Wichita Community Foundation	(199,597)	-	(199,597)
Other	173,056	-	173,056
Satisfaction of program restrictions	498,436	(498,436)	-
Satisfaction of equipment acquisition restrictions	35,114	(35,114)	-
Total revenues, gains and other support	26,046,207	38,687	26,084,894
Expenses			
School	19,414,027	-	19,414,027
Pediatric Services	4,499,067	-	4,499,067
Total program services	23,913,094	-	23,913,094
Management and general	1,033,757	-	1,033,757
Fund raising	652,418	-	652,418
Total expenses	25,599,269	-	25,599,269
Change in Net Assets	446,938	38,687	485,625
Net Assets, Beginning of Year	31,281,581	5,044,175	36,325,756
Net Assets, End of Year	$ 31,728,519	$ 5,082,862	$ 36,811,381

2019		
Without Donor Restrictions	With Donor Restrictions	Total
$ 24,217,678	$ -	$ 24,217,678
625,705	865,450	1,491,155
631,754	90,313	722,067
(62,887)	-	(62,887)
216,235	-	216,235
760,045	(760,045)	-
1,826	(1,826)	-
26,390,356	193,892	26,584,248
17,788,865	-	17,788,865
4,429,016	-	4,429,016
22,217,881	-	22,217,881
896,027	-	896,027
679,359	-	679,359
23,793,267	-	23,793,267
2,597,089	193,892	2,790,981
28,684,492	4,850,283	33,534,775
$ 31,281,581	$ 5,044,175	$ 36,325,756

Heartspring, Inc.
Consolidated Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	2020	2019
Operating Activities		
Change in net assets	$ 485,625	$ 2,790,981
Items not requiring (providing) operating activities cash flows		
Depreciation	878,946	812,448
Loss on disposal of property and equipment	-	909
Net realized and unrealized gains on investments	(33,359)	(93,562)
Loss on interest in net assets at Wichita Community Foundation	199,597	62,887
Contributions received restricted for acquisition of long-lived assets	-	(190,700)
Changes in		
Accounts receivable	387,856	(133,324)
Prepaid expenses and other	16,427	(35,871)
Contributions receivable	17,895	85,431
Accounts payable and accrued expenses	(337,091)	437,193
Deposits and advances	(12,017)	(301,048)
Deferred revenue	3,536,600	-
Net cash provided by operating activities	5,140,479	3,435,344
Investing Activities		
Purchase of property and equipment	(763,876)	(1,978,194)
Proceeds from disposition of property and equipment	-	880
Purchase of investments	(1,280,253)	(3,441,216)
Proceeds from sale of investments	979,967	3,357,046
Net cash used in investing activities	(1,064,162)	(2,061,484)
Financing Activities		
Proceeds from contributions restricted for acquisition of long-lived assets	-	190,700
Net cash provided by financing activities	-	190,700
Increase in Cash and Cash Equivalents	4,076,317	1,564,560
Cash and Cash Equivalents, Beginning of Year	3,862,313	2,297,753
Cash and Cash Equivalents, End of Year	$ 7,938,630	$ 3,862,313

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, 2020 and 2019, cash equivalents consisted primarily of money market accounts.

At June 30, 2020, Heartspring's cash accounts exceeded federally insured limits by approximately $7,706,000.

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 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, 2020 and 2019.

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. PPP loans are subject to audit and acceptance by the U.S. Department of Treasury, Small Business Administration, or lender; as a result of such audit, adjustments could be required to the recognition of revenue. The unrecognized amount of the PPP loan of $3,536,600 at June 30, 2020, is recorded as deferred revenue in the accompanying consolidated statements of financial position.

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

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

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 9* 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 $75,000.

Note 2: Investments and Investment Return

Investments at June 30 consisted of the following:

	2020	2019
Investments, at Fair Value		
Equity securities	$ 5,789,050	$ 5,518,037
Corporate debt securities	3,888,244	3,809,501
U.S. treasury securities	369,821	398,669
Money market mutual funds	218,917	206,180
	$ 10,266,032	$ 9,932,387

Total investment return is comprised of the following:

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Interest and dividend income, less investment expense of $23,464	$ 598,952	$ 83,301	$ 682,253
Net realized losses on investments reported at fair value	(16,159)	(58,883)	(75,042)
Net unrealized gains on investments reported at fair value	66,105	42,296	108,401
Total	$ 648,898	$ 66,714	$ 715,612

	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

Note 3: Contributions Receivable

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

	2020	2019
Due within one year	$ 154,500	$ 24,444
Due in one to five years	44,120	218,071
	198,620	242,515
Less allowance for uncollectible pledges	-	(26,000)
	$ 198,620	$ 216,515

A discount rate of 4% was used for both 2020 and 2019.

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:

	2020	2019
Heartspring, Inc.	$ 611,198	$ 637,158
Heartspring Foundation	3,849,218	4,022,855
	$ 4,460,416	$ 4,660,013

Note 5: Property and Equipment

Property and equipment at June 30 consists of:

	2020	2019
Land and improvements	$ 3,655,816	$ 3,584,479
Buildings	20,285,269	19,729,043
Equipment and furnishings	2,781,984	2,645,672
	26,723,069	25,959,194
Less accumulated depreciation	10,647,117	9,768,172
	$ 16,075,952	$ 16,191,022

Note 6: 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 $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 2020 and 2019 is summarized as follows and is included in other accrued expenses in the balance sheets:

	2020	2019
Balance, beginning of year	$ 193,000	$ 635,997
Current year claims incurred and changes in estimates for claims incurred in prior years	791,990	161,523
Claims and expenses paid	(818,990)	(604,520)
Balance, end of year	$ 166,000	$ 193,000

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:

	2020	2019
Subject to expenditure for specified purpose		
Financial assistance to clients	$ 2,015,918	$ 1,906,524
Pediatric Services	99,504	124,271
School	96,292	117,351
Other	192,527	217,408
	$ 2,404,241	$ 2,365,554

	2020	2019
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.

	2020	2019
Satisfaction of purpose restrictions		
Financial assistance to clients	$ 43,105	$ 25,280
Pediatric Services program expenses	103,689	135,446
School program expenses	97,455	84,590
Other	254,187	514,729
	498,436	760,045
Equipment acquired and placed in service	35,114	1,826
	$ 533,550	$ 761,871

Note 8: Liquidity and Availability

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

	2020	2019
Financial assets at year end		
Cash and cash equivalents	$ 7,938,630	$ 3,862,313
Patient accounts receivable, net	3,010,366	3,398,222
Contributions receivable	198,620	216,515
Investments	10,266,032	9,932,387
Interest in assets held by Wichita Community Foundation	4,460,416	4,660,013
Total financial assets	25,874,064	22,069,450
Less amounts not available to be used within one year		
Contributions receivable	44,120	218,071
Investments	10,266,032	9,932,387
Interest in assets held by Wichita Community Foundation	4,460,416	4,660,013
Financial assets not available to be used within one year	14,770,568	14,810,471
Financial assets available to meet general expenditures within one year	$ 11,103,496	$ 7,258,979

Investments are not available for general expenditure within the next year due to internal spending policies. 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:

	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

	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

Note 10: 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, 2020 and 2019, was:

	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	$ -	$ 4,440,778	$ 4,440,778
Accumulated investment gains	115,325	-	115,325
Total endowment funds	$ 115,325	$ 4,440,778	$ 4,556,103

	2019		
	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	$ -	$ 4,383,251	$ 4,383,251
Accumulated investment gains	99,538	-	99,538
Total endowment funds	$ 99,538	$ 4,383,251	$ 4,482,789

Changes in endowment net assets for the years ended June 30, 2020 and 2019, were:

	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

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 76,344	$ 4,298,728	$ 4,375,072
Investment return, net	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

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, 2020 and 2019.

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 $509,489 and $490,152 in 2020 and 2019, 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, 2020 and 2019:

		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	$ -	$ -

		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	3,809,501	3,809,501	-	-
U.S. treasury securities	398,669	398,669	-	-
Money market mutual funds	206,180	206,180	-	-
	$ 9,932,387	$ 9,932,387	$ -	$ -

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, 2020.

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: Subsequent Events

Subsequent events have been evaluated through December 21, 2020, which is the date the financial statements were available to be issued.

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. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

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. ASU 2020-05, *Effective Dates for Certain Entities*, was issued on June 3, 2020, which delays the effective date by one additional year. Heartspring is in the process of evaluating the impact the amendment will have on the financial statements.

Accounting for Leases

The 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, 2020. ASU 2020-05, *Effective Dates for Certain Entities,* was issued on June 3, 2020, which delays the effective date by one additional year. Heartspring is evaluating the impact the standard will have on the financial statements.

Supplementary Information

Heartspring, Inc.
Schedules of Activities
Years Ended June 30, 2020 and 2019

	2020			
	Activities Exclusive of Fund Raising and Other Funds	Fund Raising	Other Funds	Total
Public Support and Revenue				
Public Support				
Contributions	$ -	$ 1,279,344	$ -	$ 1,279,344
Total public support	-	1,279,344	-	1,279,344
Revenue				
Fees	24,116,479	-	-	24,116,479
Investment return	209,072	-	506,540	715,612
Change in interest in assets held by Wichita Community Foundation	-	-	(199,597)	(199,597)
Other	173,056	-	-	173,056
Total public support, revenue and transfers	24,498,607	1,279,344	306,943	26,084,894
Expenses				
Program Services				
School	19,414,027	-	-	19,414,027
Pediatric Services	4,499,067	-	-	4,499,067
Total program services	23,913,094	-	-	23,913,094
Supporting Services				
Management and general	1,033,757	-	-	1,033,757
Fund raising	-	652,418	-	652,418
Total expenses	24,946,851	652,418	-	25,599,269
Change in Net Assets	$ (448,244)	$ 626,926	$ 306,943	$ 485,625

2019			
Activities Exclusive of Fund Raising and Other Funds	Fund Raising	Other Funds	Total
$ -	$ 1,491,155	$ -	$ 1,491,155
-	1,491,155	-	1,491,155
24,217,678	-	-	24,217,678
244,464	-	477,603	722,067
-	-	(62,887)	(62,887)
216,235	-	-	216,235
24,678,377	1,491,155	414,716	26,584,248
17,788,865	-	-	17,788,865
4,429,016	-	-	4,429,016
22,217,881	-	-	22,217,881
896,027	-	-	896,027
-	679,359	-	679,359
23,113,908	679,359	-	23,793,267
$ 1,564,469	$ 811,796	$ 414,716	$ 2,790,981