Heartspring, Inc.

Independent Auditor's Report and Consolidated Financial Statements

June 30, 2023 and 2022

Heartspring, Inc.
June 30, 2023 and 2022

Contents

FORVIS

1551 N. Waterfront Parkway, Suite 300 / Wichita, KS 67206
P 316.265.2811 / F 316.265.9405
forvis.com

Independent Auditor's Report

Board of Trustees
Heartspring, Inc.
Wichita, Kansas

Opinion

We have audited the consolidated financial statements of Heartspring, Inc., which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, and the related consolidated statements of activities and cash flow for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Heartspring, Inc. as of June 30, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Heartspring, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Heartspring, Inc.'s ability to continue as a going concern within one year after the date that these consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Heartspring, Inc.'s internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Heartspring, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 is presented for purposes of additional analysis and is 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.

FORVIS, LLP

Wichita, Kansas
February 5, 2024

Heartspring, Inc.
Consolidated Statements of Financial Position
June 30, 2023 and 2022

	2023	2022
Assets		
Cash and cash equivalents	$ 2,279,080	$ 2,160,053
Accounts receivable, net of allowance; 2023 – $202,813; 2022 – $76,754	2,987,972	2,948,965
Prepaid expenses and other	553,497	448,651
Investments	12,798,758	12,885,352
Contributions receivable	52,083	302,350
Interest in assets held by Wichita Community Foundation	4,979,904	4,670,818
Property and equipment, net of accumulated depreciation; 2023 – $12,282,196; 2022 – $11,513,330	14,424,964	14,911,967
Total assets	$ 38,076,258	$ 38,328,156
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 362,611	$ 302,398
Accrued compensated absences	401,156	424,465
Other accrued expenses	1,147,099	1,307,157
Deposits and advances	-	26,843
Total liabilities	1,910,866	2,060,863
Net Assets		
Without donor restrictions	29,649,889	30,475,178
With donor restrictions		
Purpose restriction	3,586,882	2,863,494
Perpetual in nature	2,928,621	2,928,621
Total net assets	36,165,392	36,267,293
Total liabilities and net assets	$ 38,076,258	$ 38,328,156

Heartspring, Inc.
Consolidated Statements of Activities
Years Ended June 30, 2023 and 2022

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support			
Fees	$ 23,959,195	$ -	$ 23,959,195
Contributions	620,152	314,884	935,036
Legacies and bequests	-	-	-
Investment return	651,298	527,321	1,178,619
Change in interest in assets held by Wichita Community Foundation	309,086	-	309,086
Other	172,730	-	172,730
Satisfaction of program restrictions	108,061	(108,061)	-
Satisfaction of equipment acquisition restrictions	10,756	(10,756)	-
Total revenues, gains and other support	25,831,278	723,388	26,554,666
Expenses			
School	20,961,478	-	20,961,478
Pediatric Services	3,719,616	-	3,719,616
Total program services	24,681,094	-	24,681,094
Management and general	1,416,216	-	1,416,216
Fund raising	559,257	-	559,257
Total expenses	26,656,567	-	26,656,567
Change in Net Assets	(825,289)	723,388	(101,901)
Net Assets, Beginning of Year	30,475,178	5,792,115	36,267,293
Net Assets, End of Year	$ 29,649,889	$ 6,515,503	$ 36,165,392

2022		
Without Donor Restrictions	With Donor Restrictions	Total
$ 24,044,097	$ -	$ 24,044,097
1,597,714	319,497	1,917,211
-	250,000	250,000
(741,879)	(756,247)	(1,498,126)
(682,726)	-	(682,726)
168,871	-	168,871
325,410	(325,410)	-
9,621	(9,621)	-
24,721,108	(521,781)	24,199,327
21,811,689	-	21,811,689
4,595,249	-	4,595,249
26,406,938	-	26,406,938
1,493,284	-	1,493,284
721,526	-	721,526
28,621,748	-	28,621,748
(3,900,640)	(521,781)	(4,422,421)
34,375,818	6,313,896	40,689,714
$ 30,475,178	$ 5,792,115	$ 36,267,293

Heartspring, Inc.
Consolidated Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	2023	2022
Operating Activities		
Change in net assets	$ (101,901)	$ (4,422,421)
Items not requiring (providing) operating activities cash flows		
Depreciation	768,865	831,274
Net realized and unrealized (gains) losses on investments	(886,007)	2,016,453
(Gain) loss on interest in net assets at Wichita Community Foundation	(309,086)	682,726
Changes in		
Accounts receivable	(39,007)	273,116
Prepaid expenses and other	(104,846)	26,905
Contributions receivable	250,267	(243,229)
Accounts payable and accrued expenses	(123,154)	(415,885)
Deposits and advances	(26,843)	6,043
Net cash used in operating activities	(571,712)	(1,245,018)
Investing Activities		
Purchase of property and equipment	(281,862)	(231,247)
Purchase of investments	(292,612)	(554,807)
Proceeds from investments and interest in assets	1,265,213	70,597
Net cash provided by (used in) investing activities	690,739	(715,457)
Increase (Decrease) in Cash and Cash Equivalents	119,027	(1,960,475)
Cash and Cash Equivalents, Beginning of Year	2,160,053	4,120,528
Cash and Cash Equivalents, End of Year	$ 2,279,080	$ 2,160,053

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, 2023 and 2022, cash equivalents consisted primarily of money market accounts.

At June 30, 2023, Heartspring's cash accounts exceeded federally insured limits by approximately $2,087,000.

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, 2023 and 2022.

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.

Program Fee Revenue

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 years ended June 30, 2023 and 2022, Heartspring recognized revenue of $21,430,135 and $20,681,435, respectively, from program fees that transfer to the student over time.

Therapy Fee Revenue

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 years ended June 30, 2023 and 2022, Heartspring recognized revenue of $2,529,060 and $3,362,662, respectively, 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 February 5, 2024, 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:

	2023	2022
Due within one year	$ 52,083	$ 302,350
Due in one to five years	-	-
	52,083	302,350
Less allowance for uncollectible pledges	-	-
	$ 52,083	$ 302,350

A discount rate of 4% was used for both 2023 and 2022.

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 and losses 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:

	2023	2022
Heartspring, Inc.	$ 635,754	$ 618,738
Heartspring Foundation	4,344,150	4,052,080
	$ 4,979,904	$ 4,670,818

Note 4: Property and Equipment

Property and equipment at June 30 consists of:

	2023	2022
Land and improvements	$ 3,608,527	$ 3,608,527
Buildings	20,684,857	20,482,746
Equipment and furnishings	2,388,053	2,308,301
Construction in progress	25,723	25,723
	26,707,160	26,425,297
Less accumulated depreciation	12,282,196	11,513,330
	$ 14,424,964	$ 14,911,967

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 2023 and 2022 is summarized as follows and is included in other accrued expenses in the balance sheets:

	2023	2022
Balance, beginning of year	$ 198,000	$ 156,000
Current year claims incurred and changes in estimates for claims incurred in prior years	824,225	1,255,132
Claims and expenses paid	(781,172)	(1,213,132)
Balance, end of year	$ 241,053	$ 198,000

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:

	2023	2022
Subject to expenditure for specified purpose		
Financial assistance to clients	$ 2,779,589	$ 2,314,395
General operations and other	532,890	398,036
Pediatric Services	120,745	96,403
School	153,658	54,660
	$ 3,586,882	$ 2,863,494

	2023	2022
Endowments		
Subject to appropriation or expenditure		
Investment in perpetuity, the income of which is expendable to support		
General operations	$ 998,479	$ 748,480
Financial assistance to clients	1,762,632	1,762,631
Other	167,510	167,510
	2,928,621	2,678,621
Contributions to be held in perpetuity, the income of is expendable to support general operations	-	250,000
	$ 2,928,621	$ 2,928,621

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.

	2023	2022
Satisfaction of purpose restrictions		
Financial assistance to clients	$ 25,227	$ 104,945
Pediatric Services program expenses	19,612	63,734
School program expenses	29,958	97,675
Other	33,264	59,056
	108,061	325,410
Equipment acquired and placed in service	10,756	9,621
	$ 118,817	$ 335,031

Note 7: Liquidity and Availability

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

	2023	2022
Financial assets at year end		
Cash and cash equivalents	$ 2,279,080	$ 2,160,053
Patient accounts receivable, net	2,987,972	2,948,965
Contributions receivable	52,083	302,350
Investments	12,798,758	12,885,352
Interest in assets held by Wichita Community Foundation	4,979,904	4,670,818
Total financial assets	23,097,797	22,967,538
Less amounts not available to be used within one year		
Investments	12,798,758	12,885,352
Interest in assets held by Wichita Community Foundation	4,979,904	4,670,818
Financial assets not available to be used within one year	17,778,662	17,556,170
Financial assets available to meet general expenditures within one year	$ 5,319,135	$ 5,411,368

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:

	2023					
	Program Services					
	School	Pediatric Services	Total Program Services	Management and General	Development	Total
Salaries and wages	$ 14,051,977	$ 2,580,839	$ 16,632,816	$ 858,248	$ 291,633	$ 17,782,697
Employee benefits	3,606,273	586,124	4,192,397	106,879	45,818	4,345,094
Total salaries, wages and related expenses	17,658,250	3,166,963	20,825,213	965,127	337,451	22,127,791
Professional fees	392,245	123,532	515,777	227,491	39,605	782,873
Supplies	424,591	43,375	467,966	25,608	17,904	511,478
Food	564,279	3,649	567,928	24,738	26,140	618,806
Facilities and insurance	707,093	130,073	837,166	28,425	49,813	915,404
Utilities	358,009	76,736	434,745	11,027	4,288	450,060
Travel and in-service training	70,095	24,942	95,037	21,066	8,156	124,259
Printing and advertising	49,348	9,788	59,136	4,137	32,758	96,031
Miscellaneous	112,945	19,334	132,279	93,819	34,902	261,000
Total expenses before depreciation	20,336,855	3,598,392	23,935,247	1,401,438	551,017	25,887,702
Depreciation	624,623	121,224	745,847	14,778	8,240	768,865
Total	$ 20,961,478	$ 3,719,616	$ 24,681,094	$ 1,416,216	$ 559,257	$ 26,656,567

	2022					
	Program Services					
	School	Pediatric Services	Total Program Services	Management and General	Development	Total
Salaries and wages	$ 14,564,029	$ 3,238,830	$ 17,802,859	$ 1,042,413	$ 420,199	$ 19,265,471
Employee benefits	3,756,316	731,065	4,487,381	132,298	68,980	4,688,659
Total salaries, wages and related expenses	18,320,345	3,969,895	22,290,240	1,174,711	489,179	23,954,130
Professional fees	399,902	116,475	516,377	186,026	42,556	744,959
Supplies	451,794	69,894	521,688	15,863	21,899	559,450
Food	539,249	3,861	543,110	11,506	21,695	576,311
Facilities and insurance	858,031	159,107	1,017,138	23,571	38,239	1,078,948
Utilities	339,992	68,628	408,620	9,235	4,999	422,854
Travel and in-service training	93,005	31,057	124,062	5,527	6,362	135,951
Printing and advertising	57,769	12,324	70,093	3,375	39,600	113,068
Miscellaneous	80,006	27,489	107,495	50,019	47,289	204,803
Total expenses before depreciation	21,140,093	4,458,730	25,598,823	1,479,833	711,818	27,790,474
Depreciation	671,596	136,519	808,115	13,451	9,708	831,274
Total	$ 21,811,689	$ 4,595,249	$ 26,406,938	$ 1,493,284	$ 721,526	$ 28,621,748

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, 2023 and 2022, was:

	2023		
	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	$ -	$ 2,928,621	$ 2,928,621
Accumulated investment gains	-	2,373,269	2,373,269
Total endowment funds	$ -	$ 5,301,890	$ 5,301,890

	2022		
	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	-	2,095,948	2,095,948
Total endowment funds	$ -	$ 4,774,569	$ 4,774,569

Changes in endowment net assets for the years ended June 30, 2023 and 2022, were:

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ -	$ 4,774,569	$ 4,774,569
Investment return, net	-	527,321	527,321
Endowment net assets, end of year	$ -	$ 5,301,890	$ 5,301,890

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ -	$ 5,530,816	$ 5,530,816
Investment return, net	-	(712,081)	(712,081)
Appropriation of endowment net assets for expenditure	-	(44,166)	(44,166)
Endowment net assets, end of year	$ -	$ 4,774,569	$ 4,774,569

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, 2023 and 2022.

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 $756,476 and $741,680 in 2023 and 2022, respectively.

Note 11: Disclosures About Fair Value of Investments

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, 2023 and 2022:

		2023 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	$ 7,977,458	$ 7,977,458	$ -	$ -
Corporate debt securities	3,402,142	3,402,142	-	-
U.S. treasury securities	405,195	405,195	-	-
Money market mutual funds	1,013,963	1,013,963	-	-
	$ 12,798,758	$ 12,798,758	$ -	$ -

		2022 Fair Value Measurements Using		
	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Investments				
Equity securities	$ 6,889,404	$ 6,889,404	$ -	$ -
Corporate debt securities	3,380,400	3,380,400	-	-
U.S. treasury securities	418,128	418,128	-	-
Money market mutual funds	2,197,420	2,197,420	-	-
	$ 12,885,352	$ 12,885,352	$ -	$ -

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, 2023.

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.

Litigation

During 2022, Heartspring settled certain lawsuits in which it was listed as a defendant. Heartspring accrued approximately $250,000, which is considered the best estimate of loss that will result from the litigation, including defense costs. This amount is included with other accrued liabilities on the statement of financial position. During 2023, Insurance proceeds were received to cover this claim. This was recorded with accounts receivable on the statement of financial position during 2022.

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.

Supplementary Information

Heartspring, Inc.
Schedules of Activities
Years Ended June 30, 2023 and 2022

	2023			
	Activities Exclusive of Fund Raising and Other Funds	Fund Raising	Other Funds	Total
Public Support and Revenue				
Public Support				
Contributions	$ -	$ 935,036	$ -	$ 935,036
Total public support	-	935,036	-	935,036
Revenue				
Fees	23,959,195	-	-	23,959,195
Investment return	248,824	-	929,795	1,178,619
Change in interest in assets held by Wichita Community Foundation	-	-	309,086	309,086
Other	172,730	-	-	172,730
Total public support, revenue and transfers	24,380,749	935,036	1,238,881	26,554,666
Expenses				
Program Services				
School	20,961,478	-	-	20,961,478
Pediatric Services	3,719,616	-	-	3,719,616
Total program services	24,681,094	-	-	24,681,094
Supporting Services				
Management and general	1,416,216	-	-	1,416,216
Fund raising	-	559,257	-	559,257
Total expenses	26,097,310	559,257	-	26,656,567
Change in Net Assets	$ (1,716,561)	$ 375,779	$ 1,238,881	$ (101,901)

2022			
Activities Exclusive of Fund Raising and Other Funds	Fund Raising	Other Funds	Total
$ -	$ 2,167,211	$ -	$ 2,167,211
-	2,167,211	-	2,167,211
24,044,097	-	-	24,044,097
427,987	-	(1,926,113)	(1,498,126)
-	-	(682,726)	(682,726)
168,871	-	-	168,871
24,640,955	2,167,211	(2,608,839)	24,199,327
21,811,689	-	-	21,811,689
4,595,249	-	-	4,595,249
26,406,938	-	-	26,406,938
1,493,284	-	-	1,493,284
-	721,526	-	721,526
27,900,222	721,526	-	28,621,748
$ (3,259,267)	$ 1,445,685	$ (2,608,839)	$ (4,422,421)