

# **Headway Emotional Health Services**

Richfield, Minnesota

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Financial Statements  
Auditor's Report  
For the Years Ended  
December 31, 2017 and 2016



**CERTIFIED PUBLIC ACCOUNTANTS**

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Carpenter, Evert & Associates

Certified Public Accountants

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### Independent Auditor's Report

Board of Directors  
Headway Emotional Health Services  
Richfield, Minnesota

We have audited the accompanying financial statements of Headway Emotional Health Services, which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and changes in net assets, functional expense, and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Headway Emotional Health Services as of December 31, 2017 and 2016, 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.

*Carpenter Evert and Associates, d.t.d.*

Certified Public Accountants

Minneapolis, Minnesota  
May 17, 2018

HEADWAY EMOTIONAL HEALTH SERVICES  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2017 AND 2016

EXHIBIT A

<u>ASSETS</u>	<u>2017</u>	<u>2016</u>
<b>Current Assets:</b>		
Cash	\$ -	\$ -
Contracts Receivable - Net	127,805	78,005
Client Service Receivable - Net	2,186,278	1,390,113
Other Receivable	12,217	51,139
Fiscal Agent Receivable - Custodial Funds	11,088	8,628
Prepaid Expenses	396,414	387,165
Total Current Assets	<u>2,733,802</u>	<u>1,915,050</u>
Land, Buildings and Equipment - Net	792,092	851,656
TOTAL ASSETS	<u>\$ 3,525,894</u>	<u>\$ 2,766,706</u>
<u>LIABILITIES AND NET ASSETS</u>		
<b>Current Liabilities:</b>		
Cash Overdraft	\$ 51,184	\$ 84,827
Current Portion of Long-term Debt	80,427	79,443
Line of Credit Payable	111,246	349,068
Accounts Payable	255,694	200,017
Accrued Expenses	283,820	223,214
Deferred Revenue	181,480	-
Total Current Liabilities	<u>963,851</u>	<u>936,569</u>
<b>Long-term Liabilities:</b>		
Long-term Debt, Net of Current Maturities	980,201	562,146
Total Liabilities	<u>1,944,052</u>	<u>1,498,715</u>
<b>Net Assets:</b>		
Unrestricted	1,539,579	1,190,629
Temporarily Restricted	42,263	77,362
Total Net Assets	<u>1,581,842</u>	<u>1,267,991</u>
TOTAL LIABILITIES AND NET ASSETS AND EQUITY	<u>\$ 3,525,894</u>	<u>\$ 2,766,706</u>

The accompanying Notes to Financial Statements  
are an integral part of these statements.

HEADWAY EMOTIONAL HEALTH SERVICES  
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>Support and Revenue:</b>						
Net Service Revenue	\$ 10,688,708	-	\$ 10,688,708	\$ 9,315,710	-	\$ 9,315,710
Government Grants and Contracts	3,756,703	-	3,756,703	3,319,673	-	3,319,673
Contributions (Inclusive of In-kind Revenue)	366,288	26,727	393,015	332,785	108,458	441,243
Other Revenue	93,093	-	93,093	36,609	-	36,609
Net Assets Released from Restrictions	61,826	(61,826)	-	84,040	(84,040)	-
Total Support and Revenue	14,966,618	(35,099)	14,931,519	13,088,817	24,418	13,113,235
<b>Expense:</b>						
<b>Program Services</b>						
Mental Health Services	6,201,040	-	6,201,040	5,734,843	-	5,734,843
Educational Support Services	4,081,333	-	4,081,333	3,728,695	-	3,728,695
Family Support Services	2,987,167	-	2,987,167	2,787,617	-	2,787,617
Total Program Services	13,269,540	-	13,269,540	12,251,155	-	12,251,155
<b>Support Services:</b>						
Management and General	1,234,721	-	1,234,721	1,216,824	-	1,216,824
Fundraising	113,407	-	113,407	113,864	-	113,864
Total Support Services	1,348,128	-	1,348,128	1,330,688	-	1,330,688
Total Expense	14,617,668	-	14,617,668	13,581,843	-	13,581,843
Change in Net Assets	348,950	(35,099)	313,851	(493,026)	24,418	(468,608)
Net Assets - Beginning of Year	1,190,629	77,362	1,267,991	1,683,655	52,944	1,736,599
Net Assets - End of Year	\$ 1,539,579	\$ 42,263	\$ 1,581,842	\$ 1,190,629	\$ 77,362	\$ 1,267,991

The accompanying Notes to Financial Statements are an integral part of these statements.

HEADWAY EMOTIONAL HEALTH SERVICES  
STATEMENTS OF FUNCTIONAL EXPENSE  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017					2016								
	Program Services			Support Services		Program Services			Support Services					
	Mental Health Services	Educational Support Services	Family Support Services	Total Program Services	Management & General	Fund-raising	Total Support Services	Mental Health Services	Educational Support Services	Family Support Services	Total Program Services	Management & General	Fund-raising	Total Support Services
Salaries and Wages	\$ 4,414,510	\$ 2,330,547	\$ 2,028,096	\$ 8,773,153	\$ 503,329	\$ 39,654	\$ 542,983	\$ 3,872,239	\$ 2,115,111	\$ 1,820,294	\$ 7,807,644	\$ 633,949	\$ 33,142	\$ 667,091
Employee Benefits and Payroll Tax	924,234	449,134	445,632	1,819,000	77,737	9,712	87,449	898,967	417,304	436,766	1,753,037	128,122	7,295	135,417
Total Personnel Expense	5,338,744	2,779,681	2,473,728	10,592,153	581,066	49,366	630,432	4,771,206	2,532,415	2,257,060	9,560,681	762,071	40,437	802,508
Facilities	228,395	883,986	109,137	1,221,518	102,136	1,587	103,723	257,562	746,722	98,546	1,102,830	72,034	1,648	73,682
Office Systems	207,459	119,287	127,661	454,407	26,877	1,841	28,718	203,921	113,386	123,490	440,797	33,455	1,637	35,092
Outside Services	79,727	32,439	20,626	132,792	314,844	19,335	334,179	27,378	19,060	18,442	64,880	190,102	56,675	246,777
Bad Debt Expense	179,348	83,543	102,963	365,854	-	-	-	289,776	156,279	136,908	582,963	-	-	-
Travel	87,561	112,258	112,295	312,114	13,544	203	13,747	63,131	85,825	97,543	246,499	35,648	-	582,963
Supplies	74,747	67,782	37,852	180,381	44,666	1,621	46,287	81,865	64,264	36,528	182,657	35,144	1,392	282,147
Other Expenses	5,059	2,357	2,905	10,321	151,588	39,454	191,042	40,004	10,744	19,100	69,848	88,370	12,075	100,445
Total Expense	\$ 6,201,040	\$ 4,081,333	\$ 2,987,167	\$ 13,269,540	\$ 1,234,721	\$ 113,407	\$ 1,348,128	\$ 5,734,843	\$ 3,728,695	\$ 2,787,617	\$ 12,251,155	\$ 1,216,824	\$ 113,864	\$ 1,330,688
Salaries and Wages	\$ 4,414,510	\$ 2,330,547	\$ 2,028,096	\$ 8,773,153	\$ 503,329	\$ 39,654	\$ 542,983	\$ 3,872,239	\$ 2,115,111	\$ 1,820,294	\$ 7,807,644	\$ 633,949	\$ 33,142	\$ 667,091
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Outside Services	79,727	32,439	20,626	132,792	314,844	19,335	334,179	27,378	19,060	18,442	64,880	190,102	56,675	246,777
Bad Debt Expense	179,348	83,543	102,963	365,854	-	-	-	289,776	156,279	136,908	582,963	-	-	-
Travel	87,561	112,258	112,295	312,114	13,544	203	13,747	63,131	85,825	97,543	246,499	35,648	-	582,963
Supplies	74,747	67,782	37,852	180,381	44,666	1,621	46,287	81,865	64,264	36,528	182,657	35,144	1,392	282,147
Other Expenses	5,059	2,357	2,905	10,321	151,588	39,454	191,042	40,004	10,744	19,100	69,848	88,370	12,075	100,445
Total Expense	\$ 6,201,040	\$ 4,081,333	\$ 2,987,167	\$ 13,269,540	\$ 1,234,721	\$ 113,407	\$ 1,348,128	\$ 5,734,843	\$ 3,728,695	\$ 2,787,617	\$ 12,251,155	\$ 1,216,824	\$ 113,864	\$ 1,330,688
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Outside Services	79,727	32,439	20,626	132,792	314,844	19,335	334,179	27,378	19,060	18,442	64,880	190,102	56,675	246,777
Bad Debt Expense	179,348	83,543	102,963	365,854	-	-	-	289,776	156,279	136,908	582,963	-	-	-
Travel	87,561	112,258	112,295	312,114	13,544	203	13,747	63,131	85,825	97,543	246,499	35,648	-	582,963
Supplies	74,747	67,782	37,852	180,381	44,666	1,621	46,287	81,865	64,264	36,528	182,657	35,144	1,392	282,147
Other Expenses	5,059	2,357	2,905	10,321	151,588	39,454	191,042	40,004	10,744	19,100	69,848	88,370	12,075	100,445
Total Expense	\$ 6,201,040	\$ 4,081,333	\$ 2,987,167	\$ 13,269,540	\$ 1,234,721	\$ 113,407	\$ 1,348,128	\$ 5,734,843	\$ 3,728,695	\$ 2,787,617	\$ 12,251,155	\$ 1,216,824	\$ 113,864	\$ 1,330,688
Salaries and Wages	\$ 4,414,510	\$ 2,330,547	\$ 2,028,096	\$ 8,773,153	\$ 503,329	\$ 39,654	\$ 542,983	\$ 3,872,239	\$ 2,115,111	\$ 1,820,294	\$ 7,807,644	\$ 633,949	\$ 33,142	\$ 667,091
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Office Systems	207,459	119,287	127,661	454,407	26,877	1,841	28,718	203,921	113,386	123,490	440,797	33,455	1,637	35,092
Outside Services	79,727	32,439	20,626	132,792	314,844	19,335	334,179	27,378	19,060	18,442	64,880	190,102	56,675	246,777
Bad Debt Expense	179,348	83,543	102,963	365,854	-	-	-	289,776	156,279	136,908	582,963	-	-	-
Travel	87,561	112,258	112,295	312,114	13,544	203	13,747	63,131	85,825	97,543	246,499	35,648	-	582,963
Supplies	74,747	67,782	37,852	180,381	44,666	1,621	46,287	81,865	64,264	36,528	182,657	35,144	1,392	282,147
Other Expenses	5,059	2,357	2,905	10,321	151,588	39,454	191,042	40,004	10,744	19,100	69,848	88,370	12,075	100,445
Total Expense	\$ 6,201,040	\$ 4,081,333	\$ 2,987,167	\$ 13,269,540	\$ 1,234,721	\$ 113,407	\$ 1,348,128	\$ 5,734,843	\$ 3,728,695	\$ 2,787,617	\$ 12,251,155	\$ 1,216,824	\$ 113,864	\$ 1,330,688
Salaries and Wages	\$ 4,414,510	\$ 2,330,547	\$ 2,028,096	\$ 8,773,153	\$ 503,329	\$ 39,654	\$ 542,983	\$ 3,872,239	\$ 2,115,111	\$ 1,820,294	\$ 7,807,644	\$ 633,949	\$ 33,142	\$ 667,091
Employee Benefits and Payroll Tax	924,234	449,134	445,632	1,819,000	77,737	9,712	87,449	898,967	417,304	436,766	1,753,037	128,122	7,295	135,417
Total Personnel Expense	5,338,744	2,779,681	2,473,728	10,592,153	581,066	49,366	630,432	4,771,206	2,532,415	2,257,060	9,560,681	762,071	40,437	802,508
Facilities	228,395	883,986	109,137	1,221,518	102,136	1,587	103,723	257,562	746,722	98,546	1,102,830	72,034	1,648	73,682
Office Systems	207,459	119,287	127,661	454,407	26,877	1,841	28,718	203,921	113,386	123,490	440,797	33,455	1,637	35,092
Outside Services	79,727	32,439	20,626	132,792	314,844	19,335	334,179	27,378	19,060	18,442	64,880	190,102	56,675	246,777
Bad Debt Expense	179,348	83,543	102,963	365,854	-	-	-	289,776	156,279	136,908	582,963	-	-	-
Travel	87,561	112,258	112,295	312,114	13,544	203	13,747	63,131	85,825	97,543	246,499	35,648	-	582,963
Supplies	74,747	67,782	37,852	180,381	44,666	1,621	46,287	81,865	64,264	36,528	182,657	35,144	1,392	282,147
Other Expenses	5,059	2,357	2,905	10,321	151,588	39,454	191,042	40,004	10,744	19,100	69,848	88,370	12,075	100,445
Total Expense	\$ 6,201,040	\$ 4,081,333	\$ 2,987,167	\$ 13,269,540	\$ 1,234,721	\$ 113,407	\$ 1,348,128	\$ 5,734,843	\$ 3,728,695	\$ 2,787,617	\$ 12,251,155	\$ 1,216,824	\$ 113,864	\$ 1,330,688
Salaries and Wages	\$ 4,414,510	\$ 2,330,547	\$ 2,028,096	\$ 8,773,153	\$ 503,329	\$ 39,654	\$ 542,983	\$ 3,872,239	\$ 2,115,111	\$ 1,820,294	\$ 7,807,644	\$ 633,949	\$ 33,142	\$ 667,091
Employee Benefits and Payroll Tax	924,234	449,134	445,632	1,819,000	77,737	9,712	87,449	898,967	417,304	436,766	1,753,037	128,122	7,295	135,417
Total Personnel Expense	5,338,744	2,779,681	2,473,728	10,592,153	581,066	49,366	630,432	4,771,206	2,532,415	2,257,060	9,560,681	762,071	40,437	802,508
Facilities	228,395	883,986	109,137	1,221,518	102,136	1,587	103,723	257,562	746,722	98,546	1,102,830	72,034	1,648	73,682
Office Systems														

HEADWAY EMOTIONAL HEALTH SERVICES  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

EXHIBIT D

<u>Increase (Decrease) in Cash</u>	2017	2016
Cash Flows from Operating Activities:		
Change in Net Assets	\$ 313,851	\$ (468,608)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Bad Debt Expense	365,854	582,963
Depreciation	254,848	263,478
(Increase) Decrease in Current Assets:		
Contracts Receivable	(49,800)	61,455
Client Service Receivable	(1,162,019)	(46,278)
Other Receivable	38,922	(43,874)
Fiscal Agent Receivable - Custodial Funds	(2,460)	3,131
Prepaid Expenses	(9,249)	(140,173)
Increase (Decrease) in Current Liabilities:		
Accounts Payable	55,677	25,147
Accrued Expenses	60,606	21,613
Deferred Revenue	181,480	-
Funds Held for Others	-	(14,800)
Net Cash Provided by Operating Activities	47,710	244,054
Cash Flows from Investing Activities:		
Purchases of Equipment and Building Improvements	(195,284)	(173,480)
Net Cash (Used) by Investing Activities	(195,284)	(173,480)
Cash Flows from Financing Activities:		
Net Borrowing (Payments) Under Line-of-Credit	(237,823)	77,089
Proceeds from Debt	500,000	-
Repayment of Debt	(80,960)	(213,764)
Cash Overdraft	(33,643)	66,101
Net Cash Provided (Used) by Financing Activities	147,574	(70,574)
Net Increase (Decrease) in Cash and Cash Equivalents	-	-
Cash - Beginning of year	-	-
Cash - Ending of year	\$ -	\$ -
 <u>Supplemental Disclosure of Cash Flow Information</u>		
Cash Paid for:		
Interest	\$ 47,955	\$ 60,442

The accompanying Notes to Financial Statements  
are an integral part of these statements.

HEADWAY EMOTIONAL HEALTH SERVICES  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

1. Summary of Significant Accounting Policies

Organizational Purpose

Headway Emotional Health Services (Headway) provides comprehensive mental health care in the Twin Cities area. Our mission is to transform lives by providing hope, healing and empowerment through treatment, intervention and education.

Founded in 1970, Headway today is a highly integrated, collaborative organization with a professional, diverse staff of over 220 therapists, psychiatrists, case workers and administrative staff. We help those who are facing challenges in their personal or family lives with programming and services that address parenting issues, divorce, a troubled marriage, a difficult teen, domestic violence, mental health issues, drug abuse, and more. Headway has locations in Brooklyn Center, Golden Valley, Richfield and Hopkins, and also provides services in more than 70 schools and other community-based locations throughout the Twin Cities.

In 2017, Headway provided direct mental health services to 19,434 unique clients. Self-reported data indicated 57% of our clients are minorities or families of color. 40% have incomes below 100% of Federal Poverty Guidelines; an additional 33% are between 100%-200% of Federal Poverty Guidelines. Our 2017 total charity services, defined by unreimbursed care due to financial hardship was \$375,867. No one is ever turned away or required to stop services at Headway due to financial factors in their lives.

Each day, Headway touches the lives of hundreds of people in the Twin Cities area, helping them overcome obstacles in their lives through treatment, intervention and education. Our programs fall under three focus areas: Mental Health, Family Support and Educational Support. Our clients can also be grouped: Children and Adolescents, Adults, and Couples and Family.

MENTAL HEALTH: Headway's Mental Health services include:

Children and Adolescents:

In-School: School-based services address school success, truancy, mental health and chemical dependency through support, advocacy and case management. Headway therapists are working daily in more than 70 schools, primarily in the Anoka/Hennepin and Burnsville school districts, with services also provided at individual schools in other districts.



HEADWAY EMOTIONAL HEALTH SERVICES  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

1. Summary of Significant Accounting Policies (continued)

Organizational Purpose (continued)

Outpatient Counseling: Headway offers highly effective general outpatient therapy and counseling for children and teens who are depressed, have neurological or behavioral issues, have been sexually or physically abused or neglected, or have severe mental health issues. Outpatient Counseling for children and adolescents includes therapists who specialize in: play, family and group therapy; Anger Management; Sexual Abuse Treatment; and Adolescent Dialectical Behavioral Therapy, an innovative program of individual therapy, skills groups and coaching for youth who are suicidal, self-injurious and have difficulty managing their emotions and sustaining relationships.

Psychological Assessment & Testing: As needed, psychological assessment and testing is conducted by a Clinical Psychologist. Assessments include risk, diagnostic, psychosexual, and adult certification of juveniles. Testing includes neuro-behavioral, cognitive, objective and projective personality, diagnostic and parent/teacher behavioral reports.

Adults:

Outpatient Counseling: Headway mental health professionals offer highly effective general outpatient therapy and counseling for individuals looking for emotional health support.

Medication Management: Services include monitored assessment, prescriptions, evaluation and treatment, such as managing dosage changes.

Men's Anger Management: Anger & Abuse Group Therapy Program for men with general anger management issues as well as serious domestic abuse and child protection cases.

Dialectical Behavioral Therapy (DBT): Individual therapy, skills groups and coaching for men and women who are suicidal, self-injurious and have difficulty managing their emotions and sustaining relationships.

Other Adult Services: Group Therapy, Psychiatric Services, Domestic Violence Counseling and Sexual Abuse Treatment.

Psychological Assessment & Testing: As needed, psychological assessment and testing is conducted by a clinical psychologist.

HEADWAY EMOTIONAL HEALTH SERVICES  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

1. Summary of Significant Accounting Policies (continued)

Organizational Purpose (continued)

EDUCATIONAL SUPPORT: Headway's Educational Support services include:

Day Treatment: Day Treatment programming for teens who are experiencing significant emotional and mental health issues that cannot be resolved in a standard outpatient mental health setting.

In-School: School-based services address school success, truancy, mental health and chemical dependency through support, advocacy and case management.

Truancy Services: Headway provides Truancy Case Management to Hennepin County clients through the counties' Be @ School initiative. We work with K-12 students and their families to identify the root issues of the truancy and develop plans and find resources to assist.

FAMILY SUPPORT: Headway's Family Support services include:

Case Management: Mental Health Case Management Services staffs provide guidance and support for families whose children are at risk for abuse or neglect, and for those with children who have severe and long-term mental health needs.

Healthy Families: The Hennepin Health Families Home Visiting Program services young children from prenatal to four and their first-time parents who are dealing with multiple challenges. Trained home visitors provide long-term, clinically-supervised, intensive home visits that focus on strengths and relationship-building.

Diversion: Juvenile offenders ages 10-17 are referred to Headway by Hennepin County for services ranging from restorative justice programming to diversion groups to outpatient therapy.

Divorce Education: Headway's Divorce Education seminars are designed to help couples and families through a functional divorce or separation and minimize the impact on children.

Parenting Seminars: Headway's parenting education seminars and assessments are designed to help merging couples and families create functional relationships and minimize the impact on children.

HEADWAY EMOTIONAL HEALTH SERVICES  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

1. Summary of Significant Accounting Policies (continued)

Fund Accounting

Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of Headway and changes therein are classified and reported as follows:

Unrestricted –Those resources over which the Board of Directors has discretionary control. The Board designated amounts represent those revenues which the Board has set aside for a particular purpose.

Temporarily Restricted –Those resources subject to donor imposed restrictions which will be satisfied by actions of Headway or passage of time.

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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash consists of cash, money market accounts, and all highly liquid securities purchased with an original maturity of 90 days or less. Cash and cash equivalents are stated at cost which approximates fair value.

Accounts Receivable

Headway extends credit to its customers on terms it establishes for individual customers. Receivables are recorded at amounts billed and are generally due when billed. Amounts outstanding for more than 30 days are considered delinquent. Accounts receivable are generally uncollateralized and Headway does not charge interest on accounts receivable balances. Headway reviews accounts receivable balances on a periodic basis and writes off delinquent receivables when they are considered uncollectible. Accounts receivable are net of the allowance for doubtful accounts and contractual adjustments of \$752,520 and \$768,061 at December 31, 2017 and 2016, respectively. Bad debt expense was \$365,854 and \$582,963 at December 31, 2017 and 2016, respectively. Accounts receivable are pledged as collateral against Headway's line-of-credit payable and installment note payable balance.

HEADWAY EMOTIONAL HEALTH SERVICES  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

1. Summary of Significant Accounting Policies (continued)

Property and Equipment

Equipment in excess of \$1,000 is recorded at cost if purchased or at estimated market value at date of contribution if donated. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted. All equipment purchases less than \$1,000 are expensed. Depreciation is provided on a straight-line basis over the following estimated useful lives of the assets:

Buildings and Improvements	5 – 33 Years
Leasehold Improvements	3 – 10 Years
Furniture and Office Equipment	3 – 7 Years
Automobiles	5 Years

Functional Allocation of Expense

Functional expenses have been directly coded to specific functions whenever possible. Expenses which cannot be directly identified to a specific function are allocated between program services and supporting services based on an analysis of personnel time and space utilized for the related activities.

Revenue Recognition

Contributions, including unconditional promises-to-give are recognized in the period received. Conditional promises are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Program service fees are recognized when the services are provided. Amounts received that have not been recognized as revenue are considered deferred revenue.

Income Tax

Headway is a nonprofit corporation as described in Section 501(c)(3) of the Internal Revenue Code and exempt from federal income taxes on related income accordingly. Headway is also exempt from state income taxes under similar provisions in the Minnesota Statutes. Headway has elected to adopt guidance in the income standard regarding the recognition and measurement of uncertain tax positions. Headway follows the accounting standard for contingencies for evaluating uncertain tax positions. The adoption of this standard has no effect on the financial statements.

HEADWAY EMOTIONAL HEALTH SERVICES  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

1. Summary of Significant Accounting Policies (continued)

Contributions

Contributions are recorded when received and recognized as support in the period received. If donor-imposed restrictions accompany the contribution, the amount is recorded as temporarily or permanently restricted until the donor-imposed restrictions expire or are fulfilled. Temporarily restricted net assets are reclassified to unrestricted in the period donor-imposed restrictions expire or are fulfilled, and are reported in the Statements of Activities under the Support and Revenue Category – Net Assets Released from Restrictions.

Net Service Revenue

Client and medical assistance fees are recorded at standard hourly rates. When the services are rendered, discounts are recorded to reduce client fees for allowable discounts based on the difference between the usual and customary charges and the clients' ability to pay, as determined by a sliding fee scale. Discounts are also recorded for contractual discounts as negotiated with third-party payors and medical assistance. Charity services are defined as services that Headway discounts or provides for free to under-insured or un-insured clients to assist them in receiving treatment. Charity services also include client service Headway provides in excess of contractual funding limits. Headway elects to continue to serve clients once funding is exhausted.

Government Grants and Contracts

Government grants and contract funds are recorded as revenue when earned. Revenue is earned when eligible expenditures, as defined in each grant or contract, are made. Funds received but not yet earned are shown as refundable advances. Expenditures under government contracts are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these contracts, Headway will record such disallowance at the time the final assessment is made.

Reclassifications

Certain amounts in prior year comparative totals have been reclassified to conform with the presentation in the current year financial statements.

Fiscal Agency Receivable and Payable

An asset and/or liability is recorded for certain assets for which Headway acts as an agent. The related agreements have stipulations that the assets be passed on to certain individuals or entities as directed by the sponsoring organization. At December 31, 2017 and 2016, fiscal agency transactions resulted in a net receivable of \$11,088 and \$8,628, respectively.

HEADWAY EMOTIONAL HEALTH SERVICES  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

1. Summary of Significant Accounting Policies (continued)

Unemployment Compensation Self-Insurance

Headway has elected to self-fund their unemployment claims through the Unemployment Services Trust. Contributions and unemployment payments are made through this Trust. Net (gain) expense under the plan was \$(3,626) and \$13,653 for the years ended December 31, 2017 and 2016, respectively.

Concentrations of Credit Risk

Headway maintains cash balances at a local financial institution which is insured by the federal deposit insurance corporation up to \$250,000. At times, the amounts on deposit may exceed the insured limit. Headway is also subject to risk with respect to concentration of accounts receivable and net service revenue, which is dependent on a series of contracts with third-party payers. This is typical in the industry in which Headway operates.

Subsequent Events

Headway has evaluated the effect that subsequent events would have on the financial statements through May 17, 2018, which is the date financial statements were available to be issued.

2. Land, Buildings and Equipment

Headway owned the following as of:

	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
Land	\$ 50,000	\$ 50,000
Buildings	389,097	389,097
Building Improvements	1,102,226	1,097,142
Equipment and Furniture	518,981	448,174
Automobiles	42,490	42,490
Leasehold Improvements	<u>698,445</u>	<u>579,052</u>
	2,801,239	2,605,955
Less: Accumulated Depreciation	<u>2,009,147</u>	<u>1,754,299</u>
Land, Buildings and Equipment - Net	<u>\$ 792,092</u>	<u>\$ 851,656</u>

Depreciation expense was \$254,848 and \$263,478 for the years ended December 31, 2017 and 2016, respectively.

HEADWAY EMOTIONAL HEALTH SERVICES  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

3. Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of amounts from the following as of:

	December 31,	
	2017	2016
Staff Development	\$ 35,063	\$ 40,462
Native American Expansion - Healthy Families	6,000	35,000
Equine Therapy Program	1,200	1,900
Total Temporarily Restricted	\$ 42,263	\$ 77,362

4. Retirement Plan

Headway maintains a 401(k) qualified retirement plan covering all staff that meet eligibility requirements. The plan is funded by elective employee contributions and employer match of employee contributions up to 3% of employee compensation. The amount contributed to this plan was \$205,050 and \$219,885 for the years ended December 31, 2017 and 2016, respectively.

5. Operating Leases

At December 31, 2017, Headway was obligated under noncancelable operating leases for office space and equipment. Rental expense was \$993,125 and \$853,148 for the years ended December 31, 2017 and 2016, respectively.

Minimum future rental payments for these leases are as follows:

<u>Due in the Year Ending December 31,</u>	
2018	\$ 870,020
2019	250,072
2020	168,207
2021	115,254
2022	115,043
2023 and thereafter	527,791
Total	\$ 2,046,387

6. In-kind Contributions

Headway received approximately \$215,947 and \$187,708 of in-kind salary contributions from internship positions, for the years ended December 31, 2017 and 2016, respectively.



HEADWAY EMOTIONAL HEALTH SERVICES  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

7. Long-Term Debt

The breakdown of notes payable is as follows:

	December 31,	
	2017	2016
Mortgage note payable to Bremer Bank, payable in monthly installments of \$8,492, including interest at 4.75%. The final payment is scheduled for July 11, 2019 when all unpaid principal and interest is due. The note is secured by land, building and equipment.	\$ 560,628	\$ 638,850
2.5% note payable to Otto Bremer Trust. Interest of \$12,500 is due annually. The final payment includes the entire principal balance and any remaining interest is due on January 15, 2023.	500,000	-
Note payable to MSB Holdings, payable in monthly installments of \$2,199, including interest at 8.00%. The final payment is due on October 1, 2022. Secured by all assets of Headway.	-	2,739
	1,060,628	641,589
Less Portion Due Within One (1) Year	80,427	79,443
Long-term Portion	\$ 980,201	\$ 562,146

Principal payments required at December 31, 2017 are as follows:

<u>Due in the Year Ending December 31,</u>	
2018	\$ 80,427
2019	480,201
2020	-
2021	-
2022	-
2023	500,000
Total	\$ 1,060,628

8. Line-of-Credit

Headway currently maintains a \$950,000 line-of-credit with Bremer Bank at a rate of 5.0% which expires May 31, 2018. Balance was \$111,246 and \$349,068 for the years ended December 31, 2017 and 2016, respectively. The line-of-credit is secured by all assets of Headway.



HEADWAY EMOTIONAL HEALTH SERVICES  
NOTES TO FINANCIAL STATEMENTS  
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9. Rental Income

Headway leases office space at their Richfield office building to an unrelated third party through October 2018.

Minimum future rental receipts for the lease is as follows:

<u>Due in the Year Ending December 31,</u>	
2018	<u>\$ 25,097</u>