

Headway Emotional Health Services

Richfield, Minnesota

Financial Statements

Auditor's Report

For the 18 Months Ended June 30, 2019
and the Year Ended December 2017



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 June 30, 2019 and December 31, 2017, and the related statements of activities and changes in net assets, functional expense, and cash flows for the 18 months ended June 30, 2019 and the year ended December 31, 2017, 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 June 30, 2019 and December 31, 2017, and the changes in its net assets and its cash flows for the 18 months and year then ended in accordance with accounting principles generally accepted in the United States of America.

Carpenter Evert and Associates, Ltd.

Certified Public Accountants

Minneapolis, Minnesota
November 21, 2019

HEADWAY EMOTIONAL HEALTH SERVICES
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND DECEMBER 31, 2017

EXHIBIT A

<u>ASSETS</u>	<u>2019</u>	<u>2017</u>
Current Assets:		
Cash	\$ 256,235	\$ -
Contracts Receivable - Net	220,624	127,805
Client Service Receivable - Net	3,247,660	2,186,278
Other Receivable	(4,743)	12,217
Fiscal Agent Receivable - Custodial Funds	42,887	11,088
Prepaid Expenses	27,247	396,414
Total Current Assets	<u>3,789,910</u>	<u>2,733,802</u>
Land, Buildings and Equipment - Net	670,855	792,092
TOTAL ASSETS	<u>\$ 4,460,765</u>	<u>\$ 3,525,894</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Cash Overdraft	\$ -	\$ 51,184
Current Portion of Long-term Debt	435,973	80,427
Line of Credit Payable	1,000,000	111,246
Accounts Payable	750,145	255,694
Accrued Expenses	435,549	283,820
Deferred Revenue	60,358	181,480
Total Current Liabilities	<u>2,682,025</u>	<u>963,851</u>
Long-term Liabilities:		
Long-term Debt, Net of Current Maturities	500,000	980,201
Total Liabilities	<u>3,182,025</u>	<u>1,944,052</u>
Net Assets:		
Without Donor Restrictions	1,255,955	1,539,579
With Donor Restrictions	22,785	42,263
Total Net Assets	<u>1,278,740</u>	<u>1,581,842</u>
TOTAL LIABILITIES AND NET ASSETS AND EQUITY	<u>\$ 4,460,765</u>	<u>\$ 3,525,894</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 18 MONTHS ENDED JUNE 30, 2019 AND
THE YEAR ENDED DECEMBER 31, 2017

	2019			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue:						
Net Service Revenue	\$ 17,998,819	\$ -	\$ 17,998,819	\$ 10,688,708	\$ -	\$ 10,688,708
Government Grants and Contracts	6,208,595	-	6,208,595	3,756,703	-	3,756,703
Contributions (Inclusive of In-kind Revenue)	788,499	4,381	792,880	366,288	26,727	393,015
Other Revenue	68,905	-	68,905	93,093	-	93,093
Net Assets Released from Restrictions	23,859	(23,859)	-	61,826	(61,826)	-
Total Support and Revenue	25,088,677	(19,478)	25,069,199	14,966,618	(35,099)	14,931,519
Expense:						
Program Services						
Mental Health Services	11,323,085	-	11,323,085	6,201,040	-	6,201,040
Educational Support Services	6,192,889	-	6,192,889	4,081,333	-	4,081,333
Family Support Services	5,418,761	-	5,418,761	2,987,167	-	2,987,167
Total Program Services	22,934,735	-	22,934,735	13,269,540	-	13,269,540
Support Services:						
Management and General	2,333,068	-	2,333,068	1,234,721	-	1,234,721
Fundraising	104,498	-	104,498	113,407	-	113,407
Total Support Services	2,437,566	-	2,437,566	1,348,128	-	1,348,128
Total Expense	25,372,301	-	25,372,301	14,617,668	-	14,617,668
Change in Net Assets	(283,624)	(19,478)	(303,102)	348,950	(35,099)	313,851
Net Assets - Beginning of Year	1,539,579	42,263	1,581,842	1,190,629	77,362	1,267,991
Net Assets - End of Year	\$ 1,255,955	\$ 22,785	\$ 1,278,740	\$ 1,539,579	\$ 42,263	\$ 1,581,842

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

HEADWAY EMOTIONAL HEALTH SERVICES
STATEMENTS OF FUNCTIONAL EXPENSE
FOR THE 18 MONTHS ENDED JUNE 30, 2019 AND
THE YEAR ENDED DECEMBER 31, 2017

2019								
	Program Services				Support Services			Total All Services
	Mental Health Services	Educational Support Services	Family Support Services	Total Program Services	Management & General	Fund-raising	Total Support Services	
Salaries and Wages	\$ 7,995,052	\$ 3,608,778	\$ 3,658,234	\$ 15,262,064	\$ 985,442	\$ 56,334	\$ 1,041,776	\$ 16,303,840
Employee Benefits and Payroll Tax	1,769,791	743,476	906,162	3,419,429	178,039	11,517	189,556	3,608,985
Total Personnel Expense	9,764,843	4,352,254	4,564,396	18,681,493	1,163,481	67,851	1,231,332	19,912,825
Facilities	451,700	1,370,644	248,275	2,070,619	306,768	2,584	309,352	2,379,971
Outside Services	103,651	33,107	31,206	167,964	561,476	21,389	582,865	750,829
Office Systems	336,023	151,011	199,995	687,029	33,623	2,044	35,667	722,696
Bad Debt Expense	401,156	107,713	146,908	655,777	-	-	-	655,777
Travel	145,236	120,482	190,907	456,625	11,609	450	12,059	468,684
Other Expenses	34,310	9,213	12,565	56,088	222,644	8,594	231,238	287,326
Supplies	86,166	48,465	24,509	159,140	33,467	1,586	35,053	194,193
Total Expense	<u>\$ 11,323,085</u>	<u>\$ 6,192,889</u>	<u>\$ 5,418,761</u>	<u>\$ 22,934,735</u>	<u>\$ 2,333,068</u>	<u>\$ 104,498</u>	<u>\$ 2,437,566</u>	<u>\$ 25,372,301</u>
2017								
	Program Services				Support Services			Total All 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	\$ 9,316,136
Employee Benefits and Payroll Tax	924,234	449,134	445,632	1,819,000	77,737	9,712	87,449	1,906,449
Total Personnel Expense	5,338,744	2,779,681	2,473,728	10,592,153	581,066	49,366	630,432	11,222,585
Facilities	228,395	883,986	109,137	1,221,518	102,136	1,587	103,723	1,325,241
Outside Services	79,727	32,439	20,626	132,792	314,844	19,335	334,179	466,971
Office Systems	207,459	119,287	127,661	454,407	26,877	1,841	28,718	483,125
Bad Debt Expense	179,348	83,543	102,963	365,854	-	-	-	365,854
Travel	87,561	112,258	112,295	312,114	13,544	203	13,747	325,861
Other Expenses	5,059	2,357	2,905	10,321	151,588	39,454	191,042	201,363
Supplies	74,747	67,782	37,852	180,381	44,666	1,621	46,287	226,668
Total Expense	<u>\$ 6,201,040</u>	<u>\$ 4,081,333</u>	<u>\$ 2,987,167</u>	<u>\$ 13,269,540</u>	<u>\$ 1,234,721</u>	<u>\$ 113,407</u>	<u>\$ 1,348,128</u>	<u>\$ 14,617,668</u>

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

HEADWAY EMOTIONAL HEALTH SERVICES
STATEMENTS OF CASH FLOWS
FOR 18 MONTHS ENDED JUNE 30, 2019 AND
THE YEAR ENDED DECEMBER 31, 2017

EXHIBIT D

<u>Increase (Decrease) in Cash and Cash Equivalents</u>	<u>2019</u>	<u>2017</u>
Cash Flows from Operating Activities:		
Change in Net Assets	\$ (303,102)	\$ 313,851
Adjustments to Reconcile Change in Net Assets to		
Net Cash Provided by Operating Activities:		
Bad Debt Expense	655,777	365,854
Depreciation	350,344	254,848
(Increase) Decrease in Current Assets:		
Contracts Receivable	(92,819)	(49,800)
Client Service Receivable	(1,717,159)	(1,162,019)
Other Receivable	16,960	38,922
Fiscal Agent Receivable - Custodial Funds	(31,799)	(2,460)
Prepaid Expenses	369,167	(9,249)
Increase (Decrease) in Current Liabilities:		
Accounts Payable	494,451	55,677
Accrued Expenses	151,729	60,606
Deferred Revenue	(121,122)	181,480
Net Cash Provided (Used) by Operating Activities	<u>(227,573)</u>	<u>47,710</u>
Cash Flows from Investing Activities:		
Purchases of Equipment and Building Improvements	(229,107)	(195,284)
Net Cash (Used) by Investing Activities	<u>(229,107)</u>	<u>(195,284)</u>
Cash Flows from Financing Activities:		
Net Borrowing (Payments) Under Line-of-Credit	738,754	(237,823)
Proceeds from Debt	150,000	500,000
Repayment of Debt	(124,655)	(80,960)
Cash Overdraft	(51,184)	(33,643)
Net Cash Provided by Financing Activities	<u>712,915</u>	<u>147,574</u>
Net Increase in Cash and Cash Equivalents	256,235	-
Cash - Beginning of year	-	-
Cash - Ending of year	<u>\$ 256,235</u>	<u>\$ -</u>
<u>Supplemental Disclosure of Cash Flow Information</u>		
Cash Paid for:		
Interest	<u>\$ 86,169</u>	<u>\$ 47,955</u>

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

HEADWAY EMOTIONAL HEALTH SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30,2019 AND DECEMBER 31,2017

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 empowering people of all ages to live an emotionally healthy life.

Founded in 1970, Headway today is a highly integrated, collaborative organization with a professional, diverse staff of over 250 therapists, case workers and administrative staff. We help those who are facing challenges in their personal or family lives with programming and services that address mental health issues, parenting issues, psychological assessments, divorce, a difficult teen, physical abuse, divorce, sexual abuse, unhealthy relationships 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 2018, Headway provided direct mental health services to 21,216 unique clients. Self-reported data indicated 50% 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. During the 18 months covered by this report our total charity services, defined by unreimbursed care were \$298,726. Headway is committed to provide services to all who request it, even those with limited financial resources.

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:

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.

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, West St Paul and Burnsville school districts, with services also provided at individual schools in other districts.

HEADWAY EMOTIONAL HEALTH SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND DECEMBER 31, 2017

1. Summary of Significant Accounting Policies (continued)

Organizational Purpose (continued)

Psychological Assessment & Testing: 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 and mental health support.

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.

Psychological Assessment & Testing: Psychological assessment and testing is conducted by a clinical psychologist.

Medication Management: Services include assessment, prescriptions, and medication monitoring including managing dosage changes.

Other Adult Services: Group Therapy, specialty interventions such as DBT and EMDR.

EDUCATIONAL SUPPORT: Headway's Educational Support services include:

Day Treatment: Programming for children grades 7-12 who are experiencing significant emotional and mental health issues that make it difficult to succeed in a mainstream school setting and 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, develop plans and find resources to assist.

HEADWAY EMOTIONAL HEALTH SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND DECEMBER 31 2017

1. Summary of Significant Accounting Policies (continued)

Organizational Purpose (continued)

FAMILY SUPPORT: Headway's Family Support services include:

Case Management: Mental Health Case Management Services staff 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: Headway is a member of the Hennepin Healthy Families Home Visiting Program, which services young children from prenatal to four and their first-time parents who are dealing with multiple challenges. Our trained home visitors provide long-term, clinically-supervised, intensive home visits that focus on strengths- and relationship-building.

Diversion: Non-violent 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.

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:

Net Assets without Donor Restrictions –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.

Net Assets with Donor Restrictions –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.

HEADWAY EMOTIONAL HEALTH SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND DECEMBER 31, 2017

1. Summary of Significant Accounting Policies (continued)

New Accounting Pronouncement

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Headway has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively for the periods ended June 30, 2019 and December 31, 2017, as required.

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

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 \$956,068 and \$752,520 at June 30, 2019 and December 31, 2017, respectively. Bad debt expense was \$655,777 and \$365,854 for the 18 months ended June 30, 2019 and the year ended December 31, 2017, 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
JUNE 30, 2019 AND DECEMBER 31, 2017

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
JUNE 30, 2019 AND DECEMBER 31, 2017

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 net assets with donor restrictions until the donor-imposed restrictions expire or are fulfilled. Net assets with donor restrictions are reclassified to net assets without donor restrictions 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 June 30, 2019 and December 31, 2017, fiscal agency transactions resulted in a net receivable of \$42,887 and \$11,088, respectively.

HEADWAY EMOTIONAL HEALTH SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND DECEMBER 31, 2017

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.

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 November 21, 2019, which is the date financial statements were available to be issued.

2. Land, Buildings and Equipment

Headway owned the following as of:

	<u>June 30,</u> <u>2019</u>	<u>December 31,</u> <u>2017</u>
Land	\$ 50,000	\$ 50,000
Buildings	389,097	389,097
Building Improvements	1,230,188	1,102,226
Equipment and Furniture	594,669	518,981
Automobiles	42,490	42,490
Leasehold Improvements	<u>723,902</u>	<u>698,445</u>
	3,030,346	2,801,239
Less: Accumulated Depreciation	<u>2,359,491</u>	<u>2,009,147</u>
Land, Buildings and Equipment - Net	<u>\$ 670,855</u>	<u>\$ 792,092</u>

Depreciation expense was \$350,344 and \$254,848 for the 18 months ended June 30, 2019 and the year ended December 31, 2017, respectively.

HEADWAY EMOTIONAL HEALTH SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND DECEMBER 31, 2017

3. Net assets with Donor Restrictions

Net assets with donor restrictions consisted of amounts for the following purposes as of:

	<u>June 30,</u> <u>2019</u>	<u>December 31,</u> <u>2017</u>
Staff Development	\$ 21,585	\$ 35,063
Native American Expansion - Healthy Families	-	6,000
Equine Therapy Program	<u>1,200</u>	<u>1,200</u>
	<u>\$ 22,785</u>	<u>\$ 42,263</u>

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 \$395,191 and \$205,050 for the 18 months ended June 30, 2019 and the year ended December 31, 2017, respectively.

5. Operating Leases

At June 30, 2019, Headway was obligated under operating leases for office space and equipment. Rental expense was \$1,647,425 and \$993,125 for the 18 months ended June 30, 2019 and the year ended December 31, 2017, respectively.

Minimum future rental payments for these leases are as follows:

<u>Due in the Year Ending June 30,</u>	
2020	\$ 564,913
2021	427,363
2022	223,912
2023	228,209
2024	234,369
2025 and thereafter	<u>444,053</u>
Total	<u>\$ 2,122,819</u>

6. In-kind Contributions

Headway received approximately \$435,550 and \$215,947 of in-kind salary contributions from internship positions, for the 18 months ended June 30, 2019 and the year ended December 31, 2017, respectively.

HEADWAY EMOTIONAL HEALTH SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND DECEMBER 31, 2017

7. Long-Term Debt

The breakdown of notes payable is as follows:

	<u>June 30,</u> <u>2019</u>	<u>December 31,</u> <u>2017</u>
Mortgage note payable to Bremer Bank, payable in monthly installments of \$8,492, including interest at 4.75%. The note was refinanced on July 15, 2019 at 5.35%. The new monthly payments are \$14,027 including interest and principle with unpaid principal and interest due of February 1, 2020. The note is secured by land, building and equipment.	\$ 435,973	\$ 560,628
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.	<u>500,000</u>	<u>500,000</u>
	935,973	1,060,628
Less Portion Due Within One (1) Year	<u>435,973</u>	<u>80,427</u>
Long-term Portion	<u>\$ 500,000</u>	<u>\$ 980,201</u>

Principal payments required are as follows:

<u>Due in the Year Ending June 30,</u>	
2020	\$ 435,973
2021	-
2022	-
2023	<u>500,000</u>
Total	<u>\$ 935,973</u>

8. Line-of-Credit

Headway maintained a \$950,000 line-of-credit with Bremer Bank at a rate of 6.0% as of June 30, 2019. The balance was \$850,000 and \$111,246 as of June 30, 2019 and December 31, 2017, respectively. On July 15, 2019, Headway refinanced the line-of-credit with a principal balance of \$650,000 at a rate of 5.5%, which expires November 01, 2019. The line-of-credit is secured by all assets of Headway.

Headway currently maintains another line-of-credit with Propel NonProfits of \$150,000 at a rate of 6.5% which expires June 30, 2020. Balance was \$150,000 as of June 30, 2019. The line-of-credit is secured by all assets of Headway.

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9. Rental Income

Headway leases office space at their Richfield office building to an unrelated third party through December 31, 2020.

Minimum future rental receipts for the lease is as follows:

<u>Due in the Year Ending June 30,</u>	
2020	\$ 30,856
2021	<u>15,656</u>
	<u>\$ 46,512</u>

10. Liquidity and Availability

The following represents Headway's financial assets at June 30, 2019:

Financial Assets:	
Cash	\$ 256,235
Contracts Receivable - Net	220,624
Client Service Receivable - Net	<u>3,247,660</u>
Total Financial Assets	3,724,519
Less: Assets not available to be used within one year:	
Net Assets With Donor Restrictions	<u>22,785</u>
Financial assets available for general expenditures within one year	<u>\$ 3,701,734</u>

Headway has certain net assets with donor restrictions limited to use which are not available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been excluded in the qualitative information above for financial assets to meet general expenditures within one year.

As part of the Headway's liquidity plan, Headway has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.