

# Headway Emotional Health Services

Richfield, Minnesota

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Financial Statements  
Auditor's Report  
For the Years Ended  
June 30, 2022 and 2021



CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Headway Emotional Health Services  
Richfield, Minnesota

### **Opinion**

We have audited the accompanying financial statements of Headway Emotional Health Services (a nonprofit organization), which comprise the statement of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2022 and 2021, 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Headway Emotional Health Services 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 Financial Statements**

Management is responsible for the preparation and fair presentation of the 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 financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Headway Emotional Health Services' ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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

Our objectives are to obtain reasonable assurance about whether the 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 generally accepted auditing standards 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, including omissions, 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 financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 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 Headway Emotional Health Services' 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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Headway Emotional Health Services' 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.

*Capote East and Auld, P.A.*

Certified Public Accountants

Minneapolis, Minnesota  
December 1, 2022

HEADWAY EMOTIONAL HEALTH SERVICES  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2022 AND 2021

EXHIBIT A

<u>ASSETS</u>	<u>2022</u>	<u>2021</u>
Current Assets:		
Cash	\$ 1,011,171	\$ 1,608,564
Contracts Receivable - Net	276,438	346,850
Client Service Receivable - Net	2,132,318	2,013,959
Fiscal Agent Receivable - Custodial Funds	20,092	20,497
Prepaid Expenses	107,881	195,385
Total Current Assets	3,547,900	4,185,255
Land, Buildings and Equipment - Net	364,694	353,414
TOTAL ASSETS	\$ 3,912,594	\$ 4,538,669
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Current Portion of Long-term Debt	\$ 417,504	\$ 178,016
Accounts Payable	246,285	445,926
Accrued Expenses	415,873	667,858
Total Current Liabilities	1,079,662	1,291,800
Long-term Liabilities:		
Long-term Debt, Net of Current Maturities	505,175	922,676
Total Liabilities	1,584,837	2,214,476
Net Assets:		
Without Donor Restrictions		
Board Designated - Operating Reserve	530,000	530,000
Undesignated	1,760,764	1,780,298
Total Without Donor Restrictions	2,290,764	2,310,298
With Donor Restrictions		
Total Net Assets	36,993	13,895
TOTAL LIABILITIES AND NET ASSETS	\$ 3,912,594	\$ 4,538,669

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

HEADWAY EMOTIONAL HEALTH SERVICES  
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue:						
Net Service Revenue	\$ 10,863,234	\$ -	\$ 10,863,234	\$ 12,507,964	\$ -	\$ 12,507,964
Government Grants and Contracts	1,850,464	-	1,850,464	1,956,083	-	1,956,083
Contributions of Cash and other Financial Assets	73,751	26,335	100,086	2,093,271	900	2,094,171
Contributions of Nonfinancial Assets	65,387	-	65,387	123,939	-	123,939
Other Revenue	55,309	-	55,309	45,995	-	45,995
Net Assets Released from Purpose Restrictions	3,237	(3,237)	-	6,470	(6,470)	-
Total Support and Revenue	12,911,382	23,098	12,934,480	16,733,722	(5,570)	16,728,152
Expense:						
Program Services						
Mental Health Services	4,465,556	-	4,465,556	6,357,530	-	6,357,530
Educational Support Services	3,176,695	-	3,176,695	3,582,854	-	3,582,854
Family Support Services	3,348,857	-	3,348,857	3,998,981	-	3,998,981
Total Program Services	10,991,108	-	10,991,108	13,939,365	-	13,939,365
Support Services:						
Management and General	1,875,687	-	1,875,687	1,927,014	-	1,927,014
Fundraising	64,121	-	64,121	53,124	-	53,124
Total Support Services	1,939,808	-	1,939,808	1,980,138	-	1,980,138
Total Expense	12,930,916	-	12,930,916	15,919,503	-	15,919,503
Change in Net Assets	(19,534)	23,098	3,564	814,219	(5,570)	808,649
Net Assets - Beginning of Year	2,310,298	13,895	2,324,193	1,496,079	19,465	1,515,544
Net Assets - End of Year	\$ 2,290,764	\$ 36,993	\$ 2,327,757	\$ 2,310,298	\$ 13,895	\$ 2,324,193

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

HEADWAY EMOTIONAL HEALTH SERVICES  
STATEMENT OF FUNCTIONAL EXPENSE  
FOR THE YEAR ENDED JUNE 30, 2022 WITH COMPARATIVE TOTALS FOR 2021

	2022						2021		
	Program Services				Support Services		Total	Total	
	Mental Health Services	Educational Support Services	Family Support Services	Total Program Services	Management & General	Fund- raising	Total Support Services	All Services	Total All Services
Salaries and Wages	\$ 3,086,471	\$ 1,810,414	\$ 2,272,986	\$ 7,169,871	\$ 779,984	\$ 17,672	\$ 797,656	\$ 7,967,527	\$ 9,247,592
Employee Benefits and Payroll Tax	621,172	334,678	466,994	1,422,844	125,892	2,793	128,685	1,551,529	2,106,059
Total Personnel Expense	3,707,643	2,145,092	2,739,980	8,592,715	905,876	20,465	926,341	9,519,056	11,353,651
Facilities	191,567	572,175	167,298	931,040	264,398	1,284	265,682	1,196,722	1,225,160
Office Systems	324,989	197,601	289,603	812,193	64,202	-	64,202	876,395	905,526
Outside Services	76,838	33,160	22,338	132,336	528,537	39,431	567,968	700,304	713,933
Travel and Training	31,741	100,523	62,345	194,609	6,598	-	6,598	201,207	99,735
Bad Debt Expense	89,574	81,563	28,045	199,182	-	-	-	199,182	1,344,439
Other Expenses	16,354	17,650	21,884	55,888	87,160	-	87,160	143,048	173,942
Supplies	26,850	28,931	17,364	73,145	18,916	2,941	21,857	95,002	103,117
Total Expense	<u>\$ 4,465,556</u>	<u>\$ 3,176,695</u>	<u>\$ 3,348,857</u>	<u>\$ 10,991,108</u>	<u>\$ 1,875,687</u>	<u>\$ 64,121</u>	<u>\$ 1,939,808</u>	<u>\$ 12,930,916</u>	<u>\$ 15,919,503</u>

The accompanying Notes to Financial Statements  
are an integral part of this statement.

HEADWAY EMOTIONAL HEALTH SERVICES  
STATEMENT OF FUNCTIONAL EXPENSE  
FOR THE YEAR ENDED JUNE 30, 2021

	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	\$ 3,961,639	\$ 1,997,358	\$ 2,552,719	\$ 8,511,716	\$ 704,972	\$ 30,904	\$ 735,876	\$ 9,247,592
Employee Benefits and Payroll Tax	905,876	444,094	621,961	1,971,931	128,196	5,932	134,128	2,106,059
Total Personnel Expense	4,867,515	2,441,452	3,174,680	10,483,647	833,168	36,836	870,004	11,353,651
Facilities	145,319	714,161	95,287	954,767	268,737	1,656	270,393	1,225,160
Office Systems	413,573	176,342	257,078	846,993	55,941	2,592	58,533	905,526
Outside Services	58,521	15,701	19,990	94,212	607,756	11,965	619,721	713,933
Travel and Training	38,881	19,998	39,650	98,529	1,206	-	1,206	99,735
Bad Debt Expense	750,994	187,243	367,274	1,305,511	38,928	-	38,928	1,344,439
Other Expenses	30,422	9,404	25,097	64,923	109,019	-	109,019	173,942
Supplies	52,305	18,553	19,925	90,783	12,259	75	12,334	103,117
 Total Expense	 <u>\$ 6,357,530</u>	 <u>\$ 3,582,854</u>	 <u>\$ 3,998,981</u>	 <u>\$ 13,939,365</u>	 <u>\$ 1,927,014</u>	 <u>\$ 53,124</u>	 <u>\$ 1,980,138</u>	 <u>\$ 15,919,503</u>

The accompanying Notes to Financial Statements  
are an integral part of this statement.



HEADWAY EMOTIONAL HEALTH SERVICES  
STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

EXHIBIT E

	2022	2021
<u>Increase (Decrease) in Cash and Cash Equivalents</u>		
Cash Flows from Operating Activities:		
Change in Net Assets	\$ 3,564	\$ 808,649
Adjustments to Reconcile Change in Net Assets to		
Net Cash Provided by Operating Activities:		
Bad Debt Expense	199,182	1,344,439
Depreciation	187,953	178,637
(Increase) Decrease in Current Assets:		
Contracts Receivable	70,412	(114,813)
Client Service Receivable	(317,541)	(615,528)
Fiscal Agent Receivable - Custodial Funds	405	(14,544)
Prepaid Expenses	87,504	18,235
Increase (Decrease) in Current Liabilities:		
Refundable Advance - PPP Loan	-	(1,526,500)
Accounts Payable	(199,641)	292,112
Accrued Expenses	(251,985)	242,919
Net Cash Provided (Used) by Operating Activities	(220,147)	613,606
Cash Flows from Investing Activities:		
Purchases of Equipment and Building Improvements	(199,233)	(31,523)
Net Cash (Used) by Investing Activities	(199,233)	(31,523)
Cash Flows from Financing Activities:		
Repayment of Debt	(178,013)	(242,852)
Net Cash (Used) by Financing Activities	(178,013)	(242,852)
Net Increase in Cash and Cash Equivalents	(597,393)	339,231
Cash - Beginning of year	1,608,564	1,269,333
Cash - Ending of year	\$ 1,011,171	\$ 1,608,564
<u>Supplemental Disclosure of Cash Flow Information</u>		
Cash Paid for:		
Interest	\$ 39,264	52,839

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

HEADWAY EMOTIONAL HEALTH SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021

1. Summary of Significant Accounting Policies

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 150 employees at June 30, 2022 and over 175 employees at June 30, 2021. 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, sexual abuse, unhealthy relationships and more. Headway has locations in Brooklyn Center, Golden Valley, Richfield and Hopkins, and also provides services in more than 60 schools and other community-based locations throughout the Twin Cities.

Headway provided direct mental health services to over 6,000 unique clients in FY 2022 and FY 2021. Headway self-reported data indicated that of the clients who racially identified, 50% of our clients were non-white in FY 2022 and FY 2021. Headway is a Minnesota Essential Community Provider and committed to provide services to all who request it.

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 60 schools, primarily in the Anoka/Hennepin, Bloomington and Burnsville school districts, with services also provided at individual schools in other districts.

HEADWAY EMOTIONAL HEALTH SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021

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's 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, 2022 AND 2021

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

In order to observe the limitation and restrictions placed on resources available to Headway, the accounts are maintained in accordance with the principles of fund accounting. This is the procedure whereby resources are classified for accounting and reporting purposes into net asset groupings established according to their nature and restrictions. A description of the groupings is as follows:

Net Assets without Donor Restrictions – Net assets available for use in general operations and not subject to donor-imposed restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve.

Net Assets with Donor Restriction – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Headway reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, 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.

HEADWAY EMOTIONAL HEALTH SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021

1. Summary of Significant Accounting Policies (continued)

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.

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.

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 \$339,465 at June 30, 2022 and \$1,538,826 at June 30, 2021. Bad debt expense was \$199,183 for the fiscal year ended June 30, 2022 and \$1,344,439 for the fiscal year ended June 30, 2021. 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, 2022 AND 2021

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 and Revenue Recognition

Headway recognizes contributions when cash, securities or other assets, an unconditional promise to give, or a notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

Headway records contributed nonfinancial assets at fair market value at the date of donation. Headway's policy related to contributed nonfinancial assets is to utilize the assets given to carry out the mission of Headway. If an asset is provided that does not allow Headway to utilize it in its normal course of business, the asset will be sold at its fair market value as determined by appraisal or specialist.

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.

HEADWAY EMOTIONAL HEALTH SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021

1. Summary of Significant Accounting Policies (continued)

Government Grants and Contracts

Government grants and contracts are recorded as contributions. 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.

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. Fiscal agency transactions resulted in a net receivable of \$20,092 at June 30, 2022 and \$20,497 at June 30, 2021.

Unemployment Compensation Self-Insurance

Headway has elected to self-fund their unemployment claims through reimbursing the State of Minnesota based on actual unemployment claims paid by the State to former Headway employees.

New Accounting Pronouncement

Headway has adopted Accounting Standards Update (ASU) 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, as management believes the standards improve the usefulness and understandability of the Headway's financial reporting. The ASU has been applied retrospectively for the periods ended June 30, 2022 and 2021, as required.

Concentrations of Credit Risk

Headway maintains cash balances at Bremer Bank which is insured by the federal deposit insurance corporation up to \$250,000. As of April 1, 2021, Headway opened an insured cash sweep (ICS) account at Bremer that divides the money on deposit in to amounts not exceeding \$250,000 with any one financial institution at the end of each business day. Thus, the risk of loss due to the federal deposit insurance corporation \$250,000 limit was mitigated by keeping our funds in an ICS account from April 1, 2021 – June 30, 2022. At times, the amounts on deposit from July 1, 2020 through March 31, 2021 may have exceeded the \$250,000 insured limit. Total cash on hand at June 30, 2022 was \$1,011,171. Total cash on hand at June 30, 2021 was \$1,608,564.

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.

HEADWAY EMOTIONAL HEALTH SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021

1. Summary of Significant Accounting Policies (continued)

Subsequent Events

Headway has evaluated the effect that subsequent events would have on the financial statements through December 1, 2022, which is the date financial statements were available to be issued.

2. Uncertainties and Contingencies

The COVID-19 outbreak in the United States has caused business disruption through both mandated and voluntary suspension of operations. While many of the closings have re-opened, there are still uncertainties if there will be future disruptions due to additional outbreaks. Furthermore, hiring and retaining sufficient staff to serve our client markets has become a persistent challenge during and in the wake of the worst of COVID-19. Therefore, Headway expects these matters may impact its operating results, but reasonable estimates cannot be made at this time.

3. Land, Buildings and Equipment

Headway owned the following as of:

	June 30,	
	2022	2021
Land	\$ 50,000	\$ 50,000
Buildings	389,097	389,097
Building Improvements	1,329,196	1,239,184
Equipment and Furniture	428,058	318,836
Automobiles	42,491	42,491
Leasehold Improvements	567,610	567,610
	2,806,452	2,607,218
Less: Accumulated Depreciation	2,441,758	2,253,804
Land, Buildings and Equipment - Net	\$ 364,694	\$ 353,414

Depreciation expense was \$187,953 and \$178,637 for the years ended June 30, 2022 and 2021, respectively.

4. Net Assets with Donor Restrictions

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

	June 30,	
	2022	2021
Home Visiting Program	\$ 20,000	\$ -
Staff Development	16,993	13,895
	\$ 36,993	\$ 13,895



HEADWAY EMOTIONAL HEALTH SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021

5. Board Designated Net Assets

In the year ended June 30, 2021, the Board of Directors adopted an operating reserve policy for net assets without donor restrictions. The designated balance are as follows as of:

	June 30,	
	2022	2021
Operating Reserve	\$ 530,000	\$ 530,000

6. 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 employer amount contributed to this plan was \$179,423 and \$219,159 for the years ended June 30, 2021 and 2020, respectively.

7. Operating Leases

At June 30, 2022, Headway was obligated under operating leases for office space and equipment. Rental expense was \$851,145 for the fiscal year ended June 30, 2022, and \$830,444 for the fiscal year ended June 30, 2021.

Minimum future rental payments for these leases are as follows:

<u>Due in the Year Ending June 30,</u>	
2023	\$ 372,010
2024	381,782
2025	391,524
2026	268,216
2027	268,597
2028 and thereafter	456,727
Total	\$ 2,138,856

8. Rental Income

Headway leases office space at their Richfield office building to an unrelated third party through December 31, 2025.

Minimum future rental receipts for the lease is as follows:

<u>Due in the Year Ending June 30,</u>	
2023	\$ 31,751
2024	32,386
2025	33,033
2026	16,680
Total	\$ 113,850

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9. Contributions of Nonfinancial Assets

Headway received approximately \$65,387 for the fiscal year ended June 30, 2022 and \$123,939 for the fiscal year ended June 30, 2021 of in-kind salary contributions from internship positions and other professional services. The contributed nonfinancial assets were utilized for programs during the years ended June 30, 2022 and 2021 and have no donor restrictions. Values were based on the current market rates Headway would have paid for the same services if they were not donated.

10. Long-Term Debt

The breakdown of notes payable is as follows as of:

	June 30,	
	2022	2021
Mortgage note payable to Bremer Bank, payable in monthly installments of \$13,366, including interest at 4.35% and principal with unpaid principal and interest due on February 1, 2024. The note is secured by land, building and equipment.	\$ 257,264	\$ 402,799
Promissory note payable to Propel Nonprofits, payable in monthly installments of \$3,699, including interest at 6.5% and principal, with unpaid principal and interest due on September 16, 2022. The note is secured by Headway's assets.	165,415	197,893
2.5% note payable to Otto Bremer Trust. Interest calculated on unpaid principal balance and interest payments due every January. The principal payments are due January and July of each year from 2023 through 2027. The final payment is due January 15, 2027. The note is unsecured.	<u>500,000</u>	<u>500,000</u>
	922,679	1,100,692
Less Portion Due Within One (1) Year	<u>417,504</u>	<u>178,016</u>
Long-term Portion	<u>\$ 505,175</u>	<u>\$ 922,676</u>

Principal payments required are as follows:

<u>Due in the Year Ending June 30,</u>	
2023	\$ 417,504
2024	205,175
2025	100,000
2026	100,000
2027	<u>100,000</u>
Total	<u>\$ 922,679</u>

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11. Line-of-Credit

Headway maintained a \$625,000 line-of-credit with Bremer Bank at a variable rate of 5.5% as of June 30, 2022 and 3.25% as of June 30, 2021. The line-of-credit expires on February 1, 2023. The balance was \$-0- as of June 30, 2022 and 2021. The line-of-credit is secured by all assets of Headway.

Headway also maintained a \$150,000 line-of-credit with Propel at a variable interest rate of 6.5% at both June 30, 2022 and 2021. The line of credit expires on September 16, 2023. The balance was \$-0- as of both June 30, 2022 and 2021. The line-of-credit is secured by all assets of Headway.

12. Liquidity and Availability

The following represents Headway's financial assets as of:

	June 30,	
	2022	2021
Financial Assets:		
Cash	\$ 1,011,171	\$ 1,608,564
Contracts Receivable - Net	276,438	346,850
Client Service Receivable - Net	2,132,318	2,013,959
	3,419,927	3,969,373
Less: Assets not available to be used within one year:		
Board - Designated Operating Reserve	530,000	530,000
Net Assets With Donor Restrictions	36,993	13,895
Total Assets not available to be used within one year	566,993	543,895
Financial assets available for general expenditures		
Within one year	\$ 2,852,934	\$ 3,425,478

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.

The board-designated reserve is not considered available for use within one year, but these amounts could be made available if necessary by board action.

As part of 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.