

Headway Emotional Health Services

Richfield, Minnesota

Financial Statements
Auditor's Report
For the Years Ended
December 31, 2016 and 2015



CERTIFIED PUBLIC ACCOUNTANTS

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Carpenter, Evert & Associates

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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, 2016 and 2015, 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, 2016 and 2015, 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, Ltd.

Certified Public Accountants

Minneapolis, Minnesota
May 25, 2017

HEADWAY EMOTIONAL HEALTH SERVICES
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

EXHIBIT A

<u>ASSETS</u>	<u>2016</u>	<u>2015</u>
Current Assets:		
Cash	\$ -	\$ -
Contracts Receivable - Net	1,061,264	1,039,075
Client Service Receivable - Net	406,854	1,027,183
Other Receivable	51,139	7,265
Fiscal Agent Receivable - Custodial Funds	8,628	11,759
Prepaid Expenses	387,165	246,992
Total Current Assets	1,915,050	2,332,274
Land, Buildings and Equipment - Net	851,656	941,654
TOTAL ASSETS	\$ 2,766,706	\$ 3,273,928
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Cash Overdraft	\$ 84,827	\$ 18,726
Current Portion of Long-term Debt	79,443	91,462
Line of Credit Payable	349,068	271,979
Accounts Payable	200,017	174,870
Accrued Expenses	223,214	201,601
Fiscal Agent Payable - Custodial Funds	-	14,800
Total Current Liabilities	936,569	773,438
Long-term Liabilities:		
Long-term Debt, Net of Current Maturities	562,146	763,891
Total Liabilities	1,498,715	1,537,329
Net Assets:		
Unrestricted	1,190,629	1,683,655
Temporarily Restricted	77,362	52,944
Total Net Assets	1,267,991	1,736,599
TOTAL LIABILITIES AND NET ASSETS AND EQUITY	\$ 2,766,706	\$ 3,273,928

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, 2016 AND 2015

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenue:						
Net Service Revenue	\$ 9,315,710	\$ -	\$ 9,315,710	\$ 8,520,966	\$ -	\$ 8,520,966
Government Grants and Contracts	3,319,673	-	3,319,673	2,969,948	-	2,969,948
Contributions (Inclusive of In-kind Revenue)	332,785	108,458	441,243	189,874	109,530	299,404
Other Revenue	36,609	-	36,609	47,853	-	47,853
Net Assets Released from Restrictions	84,040	(84,040)	-	103,229	(103,229)	-
Total Support and Revenue	13,088,817	24,418	13,113,235	11,831,870	6,301	11,838,171
Expense:						
Program Services						
Mental Health Services	5,734,843	-	5,734,843	5,398,020	-	5,398,020
Educational Support Services	3,728,695	-	3,728,695	2,538,757	-	2,538,757
Family Support Services	2,787,617	-	2,787,617	2,413,663	-	2,413,663
Total Program Services	12,251,155	-	12,251,155	10,350,440	-	10,350,440
Support Services:						
Management and General Fundraising	1,216,824	-	1,216,824	1,100,042	-	1,100,042
	113,864	-	113,864	145,879	-	145,879
Total Support Services	1,330,688	-	1,330,688	1,245,921	-	1,245,921
Total Expense	13,581,843	-	13,581,843	11,596,361	-	11,596,361
Change in Net Assets	(493,026)	24,418	(468,608)	235,509	6,301	241,810
Net Assets - Beginning of Year	1,683,655	52,944	1,736,599	1,448,146	46,643	1,494,789
Net Assets - End of Year	\$ 1,190,629	\$ 77,362	\$ 1,267,991	\$ 1,683,655	\$ 52,944	\$ 1,736,599

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, 2016 AND 2015

	2016				2015			
	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	Total All Services
Salaries and Wages	\$ 3,872,239	\$ 2,115,111	\$ 1,820,294	\$ 7,807,644	\$ 633,949	\$ 33,142	\$ 667,091	\$ 8,474,735
Employee Benefits and Payroll Tax	898,967	417,304	436,766	1,753,037	128,122	7,295	135,417	1,888,454
Total Personnel Expense	4,771,206	2,532,415	2,257,060	9,560,681	762,071	40,437	802,508	10,363,189
Facilities	257,562	746,722	98,546	1,102,830	72,034	1,648	73,682	1,176,512
Bad Debt Expense	289,776	156,279	136,908	582,963	-	-	-	582,963
Office Systems	203,921	113,386	123,490	440,797	33,455	1,637	35,092	475,889
Outside Services	27,378	19,060	18,442	64,880	190,102	56,675	246,777	311,657
Travel	63,131	85,825	97,543	246,499	35,648	-	35,648	282,147
Supplies	81,865	64,264	36,528	182,657	35,144	1,392	36,536	219,193
Other Expenses	40,004	10,744	19,100	69,848	88,370	12,075	100,445	170,293
Total Expense	\$ 5,734,843	\$ 3,728,695	\$ 2,787,617	\$ 12,251,155	\$ 1,216,824	\$ 113,864	\$ 1,330,688	\$ 13,581,843

	2016				2015			
	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	Total All Services
Salaries and Wages	\$ 3,657,104	\$ 1,348,413	\$ 1,616,098	\$ 6,621,615	\$ 565,533	\$ 33,216	\$ 598,749	\$ 7,220,364
Employee Benefits and Payroll Tax	768,911	264,715	365,029	1,398,655	92,098	10,318	102,416	1,501,071
Total Personnel Expense	4,426,015	1,613,128	1,981,127	8,020,270	657,631	43,534	701,165	8,721,435
Facilities	265,222	573,043	78,226	916,491	87,355	2,518	89,873	1,006,364
Bad Debt Expense	295,029	147,688	76,067	518,784	-	-	-	518,784
Office Systems	186,964	71,768	99,226	357,958	31,925	1,981	33,906	391,864
Outside Services	31,435	15,448	24,211	71,094	192,198	78,370	270,568	341,662
Travel	70,408	56,891	101,193	228,492	3,824	202	4,026	232,518
Supplies	80,416	50,483	34,372	165,271	23,426	3,643	27,069	192,340
Other Expenses	42,531	10,308	19,241	72,080	103,683	15,631	119,314	191,394
Total Expense	\$ 5,398,020	\$ 2,538,757	\$ 2,413,663	\$ 10,350,440	\$ 1,100,042	\$ 145,879	\$ 1,245,921	\$ 11,596,361

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

HEADWAY EMOTIONAL HEALTH SERVICES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

EXHIBIT D

<u>Increase (Decrease) in Cash</u>	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities:		
Change in Net Assets	\$ (468,608)	\$ 241,810
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Bad Debt Expense	582,963	518,784
Depreciation	263,478	205,628
(Gain) from Sale of Equipment	-	(1,900)
(Increase) Decrease in Current Assets:		
Contracts Receivable	(22,189)	177,812
Client Service Receivable	37,366	49,675
Other Receivable	(43,874)	12,577
Pledges Receivable	-	5,000
Fiscal Agent Receivable - Custodial Funds	3,131	(10,129)
Prepaid Expenses	(140,173)	61,424
Increase (Decrease) in Current Liabilities:		
Accounts Payable	25,147	(130,419)
Accrued Expenses	21,613	(196,292)
Deferred Revenue	-	(72,639)
Funds Held for Others	(14,800)	14,800
Net Cash Provided by Operating Activities	<u>244,054</u>	<u>876,131</u>
Cash Flows from Investing Activities:		
Purchases of Equipment and Building Improvements	(173,480)	(384,883)
Net Cash (Used) by Investing Activities	<u>(173,480)</u>	<u>(384,883)</u>
Cash Flows from Financing Activities:		
Net Borrowing (Payments) Under Line-of-Credit	77,089	(494,089)
Proceeds from Debt	-	142,030
Repayment of Debt	(213,764)	(258,907)
Cash Overdraft	66,101	18,726
Net Cash (Used) by Financing Activities	<u>(70,574)</u>	<u>(592,240)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	-	(100,992)
Cash - Beginning of year	-	100,992
Cash - Ending of year	<u>\$ -</u>	<u>\$ -</u>
 <u>Supplemental Disclosure of Cash Flow Information</u>		
Cash Paid for:		
Interest	<u>\$ 60,442</u>	<u>\$ 58,666</u>

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

HEADWAY EMOTIONAL HEALTH SERVICES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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 180 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 2016, Headway provided direct mental health services to 19,794 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 2016 total charity services, defined by unreimbursed care due to financial hardship was \$661,219. 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, South St. Paul and Burnsville school districts, with services also provided at individual schools in other districts.

HEADWAY EMOTIONAL HEALTH SERVICES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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, 2016 AND 2015

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 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.

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.

HEADWAY EMOTIONAL HEALTH SERVICES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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 \$768,061 and \$541,054 at December 31, 2016 and 2015, respectively. Bad debt expense was \$582,963 and \$518,784 at December 31, 2016 and 2015, 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, 2016 AND 2015

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.

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, 2016 AND 2015

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.

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, 2016 and 2015, fiscal agency transactions resulted in a net receivable of \$8,628 and \$11,759, respectively.

HEADWAY EMOTIONAL HEALTH SERVICES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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 expense under the plan was \$13,653 and \$23,762 for the years ended December 31, 2016 and 2015, 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 25, 2017, 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>2016</u>	<u>2015</u>
Land	\$ 50,000	\$ 50,000
Buildings	389,097	389,097
Building Improvements	1,097,142	1,090,131
Equipment and Furniture	448,174	425,384
Automobiles	42,490	18,771
Leasehold Improvements	<u>579,052</u>	<u>459,092</u>
	2,605,955	2,432,475
Less: Accumulated Depreciation	<u>1,754,299</u>	<u>1,490,821</u>
Land, Buildings, and Equipment	<u>\$ 851,656</u>	<u>\$ 941,654</u>

Depreciation expense was \$263,478 and \$205,628 for the years ended December 31, 2016 and 2015, respectively.

HEADWAY EMOTIONAL HEALTH SERVICES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

3. Temporarily Restricted Net Assets

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

	December 31,	
	2016	2015
Staff Development	\$ 40,462	\$ 44,309
Native American Expansion - Healthy Families	35,000	-
Equine Therapy Program	1,900	1,900
Healthy Families	-	6,735
Total Temporarily Restricted	\$ 77,362	\$ 52,944

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 2.5% of employee compensation. The amount contributed to this plan was \$219,885 and \$163,567 for the years ended December 31, 2016 and 2015, respectively.

5. Operating Leases

At December 31, 2016, Headway was obligated under noncancelable operating leases for office space and equipment. Rental expense was \$853,148 and \$754,157 for the years ended December 31, 2016 and 2015, respectively.

Minimum future rental payments for these leases are as follows:

<u>Due in the Year Ending December 31,</u>	
2017	\$ 679,752
2018	375,327
2019	250,072
2020	168,207
2021	115,254
2022 and thereafter	642,833
Total	\$ 2,231,445

6. In-kind Contributions

Headway received approximately \$187,708 and \$93,028 of in-kind salary contributions from internship positions, for the years ended December 31, 2016 and 2015, respectively.

HEADWAY EMOTIONAL HEALTH SERVICES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

7. Long-Term Debt

The breakdown of notes payable is as follows:

	December 31,	
	2016	2015
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. This note was refinanced in June 2014. The note is secured by land, building and equipment.	\$ 638,850	\$ 713,323
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.	<u>2,739</u>	<u>142,030</u>
	<u>641,589</u>	<u>855,353</u>
Less Portion Due Within One (1) Year	<u>79,443</u>	<u>91,462</u>
Long-term Portion	<u>\$ 562,146</u>	<u>\$ 763,891</u>

Principal payments required at December 31, 2016 are as follows:

<u>Due in the Year Ending December 31,</u>	
2017	\$ 79,443
2018	80,427
2019	<u>481,719</u>
Total	<u>\$ 641,589</u>

8. Line-of-Credit

Headway currently maintains a \$950,000 line-of-credit with Bremer Bank at a rate of 4.5% which expires May 31, 2017. Balance was \$349,068 and \$271,979 for the years ended December 31, 2016 and 2015, respectively. The line-of-credit is secured by all assets of Headway.

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>	
2017	\$ 29,385
2018	<u>25,097</u>
Total	<u>\$ 54,482</u>