

# **Headway Emotional Health Services**

Richfield, Minnesota

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Financial Statements  
Auditor's Report  
For the Years Ended  
June 30, 2021 and 2020



**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, 2021 and 2020, 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 audit 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, 2021 and 2020, 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 Assoc. P.C.*

Certified Public Accountants

Minneapolis, Minnesota  
December 2, 2021

HEADWAY EMOTIONAL HEALTH SERVICES  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2021 AND 2020

EXHIBIT A

	<u>2021</u>	<u>2020</u>
<u>ASSETS</u>		
Current Assets:		
Cash	\$ 1,608,564	\$ 1,269,333
Contracts Receivable - Net	346,850	232,037
Client Service Receivable - Net	2,013,959	2,742,870
Fiscal Agent Receivable - Custodial Funds	20,497	5,953
Prepaid Expenses	195,385	213,620
Total Current Assets	<u>4,185,255</u>	<u>4,463,813</u>
Land, Buildings and Equipment - Net	<u>353,414</u>	<u>500,528</u>
TOTAL ASSETS	<u>\$ 4,538,669</u>	<u>\$ 4,964,341</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Current Portion of Long-term Debt	\$ 178,016	\$ 645,651
Refundable Advance - PPP Loan	-	1,526,500
Accounts Payable	445,926	153,814
Accrued Expenses	667,858	424,939
Total Current Liabilities	<u>1,291,800</u>	<u>2,750,904</u>
Long-term Liabilities:		
Long-term Debt, Net of Current Maturities	<u>922,676</u>	<u>697,893</u>
Total Liabilities	<u>2,214,476</u>	<u>3,448,797</u>
Net Assets:		
Without Donor Restrictions		
Board Designated - Operating Reserve	530,000	-
Undesignated	1,780,298	1,496,079
Total Without Donor Restrictions	<u>2,310,298</u>	<u>1,496,079</u>
With Donor Restrictions	<u>13,895</u>	<u>19,465</u>
Total Net Assets	<u>2,324,193</u>	<u>1,515,544</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,538,669</u>	<u>\$ 4,964,341</u>

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, 2021 AND 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue:						
Net Service Revenue	\$ 12,507,964	\$ -	\$ 12,507,964	\$ 14,047,425	\$ -	\$ 14,047,425
Government Grants and Contracts	1,956,083	-	1,956,083	2,085,123	-	2,085,123
Contributions (Inclusive of In-kind Revenue)	2,217,210	900	2,218,110	1,383,496	950	1,384,446
Other Revenue	45,995	-	45,995	66,857	-	66,857
Net Assets Released from Purpose Restrictions	6,470	(6,470)	-	4,270	(4,270)	-
Total Support and Revenue	16,733,722	(5,570)	16,728,152	17,587,171	(3,320)	17,583,851
Expense:						
Program Services						
Mental Health Services	6,357,530	-	6,357,530	7,930,514	-	7,930,514
Educational Support Services	3,582,854	-	3,582,854	4,033,486	-	4,033,486
Family Support Services	3,998,981	-	3,998,981	3,968,987	-	3,968,987
Total Program Services	13,939,365	-	13,939,365	15,932,987	-	15,932,987
Support Services:						
Management and General	1,927,014	-	1,927,014	1,346,545	-	1,346,545
Fundraising	53,124	-	53,124	67,515	-	67,515
Total Support Services	1,980,138	-	1,980,138	1,414,060	-	1,414,060
Total Expense	15,919,503	-	15,919,503	17,347,047	-	17,347,047
Change in Net Assets	814,219	(5,570)	808,649	240,124	(3,320)	236,804
Net Assets - Beginning of Year	1,496,079	19,465	1,515,544	1,255,955	22,785	1,278,740
Net Assets - End of Year	<u>\$ 2,310,298</u>	<u>\$ 13,895</u>	<u>\$ 2,324,193</u>	<u>\$ 1,496,079</u>	<u>\$ 19,465</u>	<u>\$ 1,515,544</u>

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, 2021 WITH COMPARATIVE TOTALS FOR 2020

	2021						2020	
	Program Services				Support Services		Total All Services	Total All 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	\$ 3,961,639	\$ 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
Bad Debt Expense	750,994	187,243	367,274	1,305,511	38,928	-	38,928	1,344,439
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
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
Travel	38,881	19,998	39,650	98,529	1,206	-	1,206	99,735
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>
								<u>\$ 17,347,047</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, 2020

	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	\$ 4,963,217	\$ 2,220,487	\$ 2,596,861	\$ 9,780,565	\$ 597,321	\$ 44,860	\$ 642,181	\$ 10,422,746
Employee Benefits and Payroll Tax	1,139,460	503,491	672,314	2,315,265	116,896	8,763	125,659	2,440,924
Total Personnel Expense	6,102,677	2,723,978	3,269,175	12,095,830	714,217	53,623	767,840	12,863,670
Bad Debt Expense	981,251	171,864	195,621	1,348,736	-	-	-	1,348,736
Facilities	258,620	870,602	129,015	1,258,237	273,036	2,012	275,048	1,533,285
Office Systems	245,325	108,750	157,247	511,322	22,959	1,732	24,691	536,013
Outside Services	109,162	33,189	48,764	191,115	195,890	382	196,272	387,387
Other Expenses	94,694	16,152	33,382	144,228	131,046	8,174	139,220	283,448
Supplies	81,320	41,057	31,969	154,346	4,639	1,508	6,147	160,493
Travel	57,465	67,894	103,814	229,173	4,758	84	4,842	234,015
Total Expense	<u>\$ 7,930,514</u>	<u>\$ 4,033,486</u>	<u>\$ 3,968,987</u>	<u>\$ 15,932,987</u>	<u>\$ 1,346,545</u>	<u>\$ 67,515</u>	<u>\$ 1,414,060</u>	<u>\$ 17,347,047</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, 2021 AND 2020

EXHIBIT E

	<u>2021</u>	<u>2020</u>
<u>Increase (Decrease) in Cash and Cash Equivalents</u>		
Cash Flows from Operating Activities:		
Change in Net Assets	\$ 808,649	\$ 236,804
Adjustments to Reconcile Change in Net Assets to		
Net Cash Provided by Operating Activities:		
Bad Debt Expense	1,344,439	1,348,736
Depreciation	178,637	203,594
(Increase) Decrease in Current Assets:		
Contracts Receivable	(114,813)	(11,413)
Client Service Receivable	(615,528)	(843,946)
Fiscal Agent Receivable - Custodial Funds	(14,544)	36,934
Prepaid Expenses	18,235	(186,373)
Increase (Decrease) in Current Liabilities:		
Refundable Advance - PPP Loan	(1,526,500)	1,526,500
Accounts Payable	292,112	(596,331)
Accrued Expenses	242,919	(15,353)
Deferred Revenue	-	(60,358)
Net Cash Provided by Operating Activities	<u>613,606</u>	<u>1,638,794</u>
Cash Flows from Investing Activities:		
Purchases of Equipment and Building Improvements	<u>(31,523)</u>	<u>(33,267)</u>
Net Cash (Used) by Investing Activities	<u>(31,523)</u>	<u>(33,267)</u>
Cash Flows from Financing Activities:		
Net Borrowing (Payments) Under Line-of-Credit	-	(850,000)
Proceeds from Debt	-	550,000
Repayment of Debt	<u>(242,852)</u>	<u>(292,429)</u>
Net Cash (Used) by Financing Activities	<u>(242,852)</u>	<u>(592,429)</u>
Net Increase in Cash and Cash Equivalents	339,231	1,013,098
Cash - Beginning of year	1,269,333	256,235
Cash - Ending of year	<u><u>\$ 1,608,564</u></u>	<u><u>\$ 1,269,333</u></u>
<u>Supplemental Disclosure of Cash Flow Information</u>		
Cash Paid for:		
Interest	<u><u>\$ 52,839</u></u>	<u><u>\$ 92,048</u></u>

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



HEADWAY EMOTIONAL HEALTH SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020

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 175 employees at June 30, 2021 and over 200 employees at June 30, 2020. 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 2021 and FY 2020. Headway self-reported data indicated that of the clients who racially identified, 51% of our clients were non-white in the fiscal year ended June 30, 2021 and 49% in the fiscal year ended June 30, 2020. Our total charity services, defined by unreimbursed care, were \$235,566 in the fiscal year ended June 30, 2021 and \$158,594 in the fiscal year ended June 30, 2020. 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, 2021 AND 2020

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, 2021 AND 2020

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, 2021 AND 2020

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 \$1,538,826 at June 30, 2021 and \$1,250,141 at June 30, 2020. Bad debt expense was \$1,344,439 for the fiscal year ended June 30, 2021 and \$1,348,736 for the fiscal year ended June 30, 2020. 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, 2021 AND 2020

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.

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, 2021 AND 2020

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 \$20,497 at June 30, 2021 and \$5,953 at June 30, 2020.

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.

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 – June 30, 2021. At times, the amounts on deposit from July 1, 2020 through March 31, 2021 and the fiscal year ended June 30, 2020 may have exceeded the \$250,000 insured limit. Total cash on hand at June 30, 2021 was \$1,608,564. Total cash on hand at June 30, 2020 was \$1,269,333.

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 December 2, 2021, which is the date financial statements were available to be issued.

HEADWAY EMOTIONAL HEALTH SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020

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 is still uncertainties if there will be future disruptions due to additional outbreaks. Therefore, Headway expects this matter 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:

	<u>June 30,</u>	
	<u>2021</u>	<u>2020</u>
Land	\$ 50,000	\$ 50,000
Buildings	389,097	389,097
Building Improvements	1,239,184	1,235,622
Equipment and Furniture	318,836	622,501
Automobiles	42,491	42,491
Leasehold Improvements	<u>567,610</u>	<u>723,902</u>
	2,607,218	3,063,613
Less: Accumulated Depreciation	<u>2,253,804</u>	<u>2,563,085</u>
Land, Buildings and Equipment - Net	<u>\$ 353,414</u>	<u>\$ 500,528</u>

Depreciation expense was \$178,637 and \$203,594 for the years ended June 30, 2021 and 2020, respectively.

4. Net Assets with Donor Restrictions

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

	<u>June 30,</u>	
	<u>2021</u>	<u>2020</u>
Staff Development	\$ 13,895	\$ 18,265
Equine Therapy Program	-	1,200
	<u>\$ 13,895</u>	<u>\$ 19,465</u>

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:

	<u>June 30,</u>	
	<u>2021</u>	<u>2020</u>
Operating Reserve	<u>\$ 530,000</u>	<u>\$ -</u>

HEADWAY EMOTIONAL HEALTH SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020

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 \$219,159 and \$275,444 for the years ended June 30, 2021 and 2020, respectively.

7. Operating Leases

At June 30, 2021, Headway was obligated under operating leases for office space and equipment. Rental expense was \$830,444 for the fiscal year ended June 30, 2021, and \$1,196,902 for the fiscal year ended June 30, 2020.

Minimum future rental payments for these leases are as follows:

<u>Due in the Year Ending June 30,</u>	
2022	\$ 800,032
2023	351,010
2024	364,502
2025	242,119
2026	246,691
2027 and thereafter	709,574
Total	<u>\$ 2,713,928</u>

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>	
2022	\$ 31,128
2023	31,751
2024	32,386
2025	33,033
2026	16,680
Total	<u>\$ 144,978</u>

9. In-kind Contributions

Headway received approximately \$123,939 for the fiscal year ended June 30, 2021 and \$240,360 for the fiscal year ended June 30, 2020 of in-kind salary contributions from internship positions and other professional services.



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10. Long-Term Debt

The breakdown of notes payable is as follows as of:

	<u>June 30,</u>	
	<u>2021</u>	<u>2020</u>
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.	\$ 402,799	\$ 615,186
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.	197,893	228,358
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. The note is unsecured.	<u>500,000</u>	<u>500,000</u>
	1,100,692	1,343,544
Less Portion Due Within One (1) Year	<u>178,016</u>	<u>645,651</u>
Long-term Portion	<u>\$ 922,676</u>	<u>\$ 697,893</u>

Principal payments required are as follows:

Due in the Year Ending June 30,

2022	\$ 178,016
2023	817,504
2024	<u>105,172</u>
Total	<u>\$ 1,100,692</u>

11. Line-of-Credit

Headway maintained a \$625,000 line-of-credit with Bremer Bank at a variable rate of 3.25% as of June 30, 2021 and 5.5% as of June 30, 2020. The line-of-credit expires on February 1, 2022. The balance was \$-0- as of June 30, 2021 and 2020. 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, 2021 and 2020. The line of credit expires on August 16, 2022. The balance was \$-0- as of both June 30, 2021 and 2020. The line-of-credit is secured by all assets of Headway.

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12. Liquidity and Availability

The following represents Headway's financial assets as of:

	<u>June 30,</u>	
	<u>2021</u>	<u>2020</u>
Financial Assets:		
Cash	\$ 1,608,564	\$ 1,269,333
Contracts Receivable - Net	346,850	232,037
Client Service Receivable - Net	<u>2,013,959</u>	<u>2,742,870</u>
	3,969,373	4,244,240
Less: Assets not available to be used within one year:		
Board - Designated Operating Reserve	530,000	-
Net Assets With Donor Restrictions	<u>13,895</u>	<u>19,465</u>
Total Assets not available to be used within one year	<u>543,895</u>	<u>19,465</u>
Financial assets available for general expenditures		
Within one year	<u>\$ 3,425,478</u>	<u>\$ 4,224,775</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.

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.

13. Paycheck Protection Program Funds

Headway received \$2,526,500 on April 5, 2020 pursuant to the Paycheck Protection Program (the "PPP") under Division A, Title I of the CARES Act, which was enacted March 27, 2020. Under the terms of the PPP, certain amounts of the funds may be forgiven if certain conditions are met including incurring eligible expenses, limitations on reductions in compensation and meeting certain full-time equivalent (FTE) headcount requirements. Management accounted for the funds under FASB ASC 958-605 and the funds are considered a refundable advance until the conditions have substantially been met. In the fiscal year ended June 30, 2020, \$1,000,000 of the funds received were recognized as contribution revenue when the conditions were met with the remaining balance of \$1,526,500 included as a refundable advance as of June 30, 2020. The remainder of the funds were recognized as contribution revenue when the conditions were met in the fiscal year ended June 30, 2021 with 100% of the \$2,526,500 loan being forgiven by the Small Business Administration in a letter dated June 11, 2021.