

**HEADQUARTERS, INC.**  
LAWRENCE, KS

FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
OCTOBER 31, 2012

AND

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

**Long CPA, PA**  
**A Professional Association**  
**Certified Public Accountants**

**HEADQUARTERS, INC.**  
LAWRENCE, KANSAS

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Board of Directors  
Headquarter, Inc.  
Lawrence, KS 66044

## INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

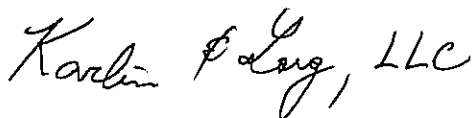
We have audited the accompanying statement of financial position of Headquarter, Inc. (a nonprofit organization) as of October 31, 2012, and the related statement of activities, functional expenses, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Headquarters, Inc., as of October 31, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Board of Directors  
Headquarters, Inc.

In accordance with Government Auditing Standards, we have also issued a report dated February 6, 2013 on our consideration of Headquarters, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

A handwritten signature in black ink that reads "Karlin & Long, LLC". The signature is written in a cursive, flowing style.

Karlin & Long, LLC  
Certified Public Accountants

February 6, 2013

**HEADQUARTERS, INC.**

Lawrence, Kansas

**STATEMENT OF FINANCIAL POSITION**

As of October 31, 2012

**Assets**

## Current assets

Cash (Note 3)	\$	92,145
Promises to give, unrestricted (Note 1)		<u>51,302</u>

Total current assets \$ 143,447

## Fixed assets

Property and equipment (Note 2)	62,977
Accumulated depreciation (Note 1)	<u>(42,589)</u>

20,388

## Other assets

Security deposit (Note 5)	<u>1,235</u>
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1,235

Total assets \$ 165,070

**Liabilities and Net Assets**

## Current Liabilities

Total current liabilities \$ -

## Net Assets

Unrestricted 165,070

Total liabilities and net assets \$ 165,070

The accompanying notes to financial statements  
are an integral part of this statement.

**HEADQUARTERS, INC.**  
Lawrence, Kansas

**STATEMENT OF ACTIVITIES**  
For the year ended October 31, 2012

**Unrestricted**

**Support**

United Way of Douglas County	\$ 32,892	
Donations	26,203	
Alcohol Tax	22,500	
Membership	39,218	
Other special projects	3,110	
University of Kansas Student Senate	-	
Special events	21,382	
Miscellaneous grants	13,150	
Business/Organization Partnership	7,745	
SAMHSA Grant	80,000	
Volunteer services (Other)	-	
	<u>                    </u>	\$ 246,200

**Revenue**

Interest income	<u>332</u>	<u>332</u>
		<u>246,532</u>

**Expenses**

Program services	207,903	
Support services		
Management and general	14,727	
Fundraising	<u>6,078</u>	
		<u>228,708</u>

**Increase in Net Assets**

\$ 17,824

The accompanying notes to financial statements  
are an integral part of this statement.

**HEADQUARTERS, INC.**  
Lawrence, Kansas

**STATEMENT OF FUNCTIONAL EXPENSES**  
For the year ended October 31, 2012

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 116,197	\$ 4,945	\$ 2,472	\$ 123,614
Payroll taxes	9,164	390	195	9,749
Health benefits	4,907	209	104	5,220
Insurance: liability		2,589		2,589
Professional services		4,359		4,359
Continuing education		670		670
Supplies: household	63			63
Supplies: office	1,078		3,307	4,385
IRA Match				-
Postage	301			301
Utilities	2,470			2,470
Telephone	6,262			6,262
Small equipment	1,539			1,539
Rent	14,225			14,225
Printing and copying	2,831			2,831
Dues		270		270
Volunteer recognition		1,135		1,135
Advertisement	3,453			3,453
Bank charges		160		160
Mileage				-
Depreciation	4,742			4,742
Special projects				-
Survivor scholarship				-
SAMHSA Grant expenses	40,671			40,671
	<u>\$ 207,903</u>	<u>\$ 14,726</u>	<u>\$ 6,079</u>	<u>\$ 228,708</u>

The accompanying notes to financial statements  
are an integral part of this statement

**HEADQUARTERS, INC.**

Lawrence, Kansas

**STATEMENT OF CHANGES IN NET ASSETS**

For the year ended October 31, 2012

<b>Unrestricted net assets, beginning of year</b>	\$ 147,246
<b>Increase (decrease) in net assets</b>	<u>17,824</u>
<b>Unrestricted net assets, end of year</b>	<u>\$ 165,070</u>

The accompanying notes to financial statements  
are an integral part of this statement



**HEADQUARTERS, INC.**

Lawrence, Kansas

**STATEMENT OF CASH FLOWS**

For the year ended October 31, 2012

	<u>Unrestricted</u>
<b>Cash Flows From Operating Activities</b>	
Increase (decrease) in net assets	\$ 17,824
Adjustments to reconcile change in net assets to net cash flows	
Depreciation	4,742
(Increase) decrease in operating assets	
Prepaid rent	-
Unconditional promises to give	<u>17,819</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>40,385</u>
<b>Net Cash Flows From Investing Activities</b>	
Purchase of property and equipment	<u>(3,344)</u>
<b>Net Cash Provided (Used) by Investing Activities</b>	<u>(3,344)</u>
<b>Net Increase (Decrease) in Cash</b>	37,041
<b>Total Cash and Cash Equivalents as of Beginning of Year</b>	<u>55,104</u>
<b>Total Cash and Cash Equivalents as of End of Year</b>	<u>\$ 92,145</u>
<b><u>Supplemental Information</u></b>	
Interest paid	<u>\$ -</u>
Income taxes paid	<u>\$ -</u>

The accompanying notes to financial statements  
are an integral part of this statement

**HEADQUARTERS, INC.**

Lawrence, Kansas

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 – Summary of Significant Accounting Policies**

Headquarters, Inc. provides short term counseling, information and referral to community resources for shelter, employment, legal aid, medical aid and other counseling and supportive services. The Organization is supported primarily through donor contributions, grants, the United Way, and the SAMHSA grant. Approximately 46% of the Organization's cash support for the year ended October 31, 2012 came from allocations from the United Way and the SAMHSA grant.

These financial statements are prepared on the accrual basis. That is revenues are recorded when earned and expenses are recorded when incurred.

**Unconditional Promises To Give**

Contributions are recognized when the donor makes a promise to give to Headquarters, Inc. that is, in substance, unconditional. Contributions that are restricted by donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on that nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. All promises to give are valued at fair market value. All promises to give are deemed collectable. The United Way funding allocation for the subsequent year is considered an unconditional promise to give.

Less than one year	<u>\$ 51,302</u>
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**Use of Accounting Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Any adjustments applied to estimated amounts are recognized in the year in which such adjustments are determined.

**HEADQUARTERS, INC.**

Lawrence, Kansas

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 – Summary of Significant Accounting Policies (Continued)**

**Property and Depreciation**

Property and equipment are recorded at cost. Depreciation is provided using the straight line method over the estimated useful life of the respective assets. Depreciation recorded for the year ended October 31, 2012 was \$ 4,742.

Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

**Income Tax Status**

Headquarters, Inc. is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code and therefore has made no provision for federal income taxes in the accompanying financial statements. In addition, Headquarters, Inc. has also been determined by the Internal Revenue Service not to be a “private foundation” within the meaning of Section 509(a) of the Internal Revenue Code. There was no unrelated business income for the year ended October 31, 2012.

**NOTE 2 – Property and Equipment**

Property and equipment are summarized by major classifications at October 31, 2012 as follows:

Furniture and equipment	\$ 55,519
Leasehold improvements	<u>7,454</u>
	<u>\$ 62,973</u>

**NOTE 3 – Cash and Credit Risk**

Cash includes demand deposits and funds invested at market rates in interest bearing accounts. The Organization had \$ 114,260 in time accounts. The Federal Deposit Insurance Corporation insures demand and time accounts up to \$ 250,000 per bank per account type. The Organization’s time accounts were fully insured as of October 31, 2012.

**HEADQUARTERS, INC.**

Lawrence, Kansas

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 – Donated Services**

The Organization relies upon local volunteers to achieve its objective of serving the counseling needs of Douglas County, Kansas. Headquarters, Inc. has calculated the amount of donated services based upon the average social worker wages from the U.S. Bureau of Statistics multiplied by the number of hours contributed. This amounted to \$ 216,157 for the 2012 fiscal year.

**NOTE 5 – Operating Lease**

The Organization has entered into a 1 year non-cancelable lease agreement for office space beginning July 1, 2012, and ending on June 30, 2013. The agreement required a returnable security deposit of \$1,116. Monthly rental payments are \$1,235.

Minimum future rental payments under the non-cancelable operating lease are:

<u>Fiscal year</u>	<u>Amount</u>
2013	<u>\$ 13,392</u>
Total minimum future rental payments	<u>\$ 13,392</u>

Rent expense for the year ended October 31, 2012 totaled \$ 14,225.

**NOTE 6 – Compensated Absences**

The Organization provides for vacation, holiday and sick leave absences of employees during the year. No provision for compensated absences has been made in these statements due to the immateriality of the amount.

**NOTE 7 – Defined Contribution Plan**

The Organization implemented a defined contribution plan during the current year. The plan is a Simple IRA plan where the organization matches up to 3% of wages contributed by the employee. The expense to the organization in the current year is \$ 0.

**HEADQUARTERS, INC.**

Lawrence, Kansas

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 8 – Concentration of Credit Risk**

The organization receives a majority of funding from two sources. If those sources adjusted their support of Headquarters, Inc., the operating character of the project could be altered significantly.

The Organization maintains all its deposits in local Lawrence, Kansas banks. This presents a concentration of credit risk for deposits.

**NOTE 9 – Risk Management**

The Organization is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the Organization carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

**NOTE 10 – Subsequent Events**

Subsequent events for management's review have been evaluated through February 6, 2013. The date in the prior sentence is the date the financial statements were available to be issued.

# Long CPA, PA

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Shareholder

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## INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDIT STANDARDS

We have audited the financial statements of Headquarters, Inc. (a nonprofit organization) as of and for the year ended October 31, 2012, and have issued our report thereon dated February 6, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Internal Control over Financial Reporting

Management of Headquarters, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Headquarters, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Headquarter, Inc.'s internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the organization's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies

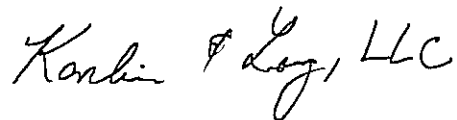
Board of Directors  
Headquarters, Inc.  
Lawrence, Kansas 66044

internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Headquarters, Inc.'s financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the audit committee, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Karlin & Long, LLC".

Karlin & Long, LLC  
Certified Public Accountants

February 6, 2013