



FINANCIAL STATEMENTS
AUGUST 31, 2021 AND 2020

HEALTH LEADS, INC.

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August 31, 2021 and 2020

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Independent Auditor's Report

To the Board of Directors of
Health Leads, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of Health Leads, Inc. (a Massachusetts corporation, not for profit) which comprise the statements of financial position as of August 31, 2021 and 2020, and the related statements of activities without donor restrictions, changes in net assets, cash flows and functional expenses 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 from 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 Health Leads, Inc. as of August 31, 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.

AAFCPAs, Inc.

Westborough, Massachusetts
January 21, 2022

HEALTH LEADS, INC.Statements of Financial Position
August 31, 2021 and 2020

Assets	2021	2020
Current Assets:		
Cash	\$ 4,178,459	\$ 2,349,097
Investments	631,693	624,882
Current portion of grants and pledges receivable	1,740,000	270,820
Accounts receivable, net of allowance for doubtful accounts	89,095	226,649
Prepaid expenses	81,844	83,888
Total current assets	6,721,091	3,555,336
Grants and Pledges Receivable, net of current portion	500,000	40,000
Equipment and Software	859,898	936,092
Less - accumulated depreciation	690,512	681,050
Net equipment and software	169,386	255,042
Total assets	<u>\$ 7,390,477</u>	<u>\$ 3,850,378</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 585,432	\$ 159,548
Accrued payroll and related	203,193	83,380
Current portion of deferred rent and lease incentive	110,045	100,965
Total current liabilities	898,670	343,893
Long-Term Liabilities:		
Deferred rent and lease incentive, net of current portion	67,284	177,330
Conditional advance	-	1,256,631
Total long-term liabilities	67,284	1,433,961
Total liabilities	965,954	1,777,854
Net Assets:		
Without donor restrictions:		
Operating	2,519,835	1,385,111
Equipment and software	169,386	255,042
Total without donor restrictions	2,689,221	1,640,153
With donor restrictions	3,735,302	432,371
Total net assets	6,424,523	2,072,524
Total liabilities and net assets	<u>\$ 7,390,477</u>	<u>\$ 3,850,378</u>

HEALTH LEADS, INC.Statements of Activities Without Donor Restrictions
For the Years Ended August 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating Support and Revenues:		
Grants	\$ 7,473,660	\$ 2,653,017
Program revenue	732,502	1,064,784
Investment return and other	490,261	115,409
Individual contributions	434,984	827,174
Donated services and facilities	57,943	201,545
Net assets released from restrictions	<u>392,377</u>	<u>1,756,940</u>
Total operating support and revenues	<u>9,581,727</u>	<u>6,618,869</u>
Operating Expenses:		
Program operations	5,939,506	6,118,092
General and administrative	1,823,937	1,992,282
Development	<u>769,216</u>	<u>1,089,253</u>
Total operating expenses	<u>8,532,659</u>	<u>9,199,627</u>
Changes in net assets without donor restrictions	<u><u>\$ 1,049,068</u></u>	<u><u>\$ (2,580,758)</u></u>

HEALTH LEADS, INC.Statements of Changes in Net Assets
For the Years Ended August 31, 2021 and 2020

Net Assets, August 31, 2019	<u>\$ 5,977,844</u>
Change in net assets without donor restrictions	<u>(2,580,758)</u>
Changes in net assets with donor restrictions:	
Contributions	432,377
Net assets released from restrictions	<u>(1,756,940)</u>
Total changes in net assets with donor restrictions	<u>(1,324,563)</u>
Changes in net assets	<u>(3,905,321)</u>
Net Assets, August 31, 2020	<u>2,072,523</u>
Change in net assets without donor restrictions	<u>1,049,068</u>
Changes in net assets with donor restrictions:	
Contributions	3,695,308
Net assets released from restrictions	<u>(392,377)</u>
Total changes in net assets with donor restrictions	<u>3,302,931</u>
Changes in net assets	<u>4,351,999</u>
Net Assets, August 31, 2021	<u><u>\$ 6,424,522</u></u>

HEALTH LEADS, INC.Statements of Cash Flows
For the Years Ended August 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ 4,351,999	\$ (3,905,321)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	115,732	126,629
Donated stock	-	(158,932)
Amortization of lease incentive	(55,724)	(55,724)
Deferred rent	(45,242)	(36,159)
Investment gains	(6,329)	(2,437)
Changes in operating assets and liabilities:		
Grants and pledges receivable	(1,929,180)	1,746,879
Accounts receivable	137,554	126,523
Prepaid expenses	2,044	50,792
Accounts payable and accrued expenses	425,884	(97,972)
Accrued payroll and related	119,813	(72,715)
Conditional advance	(1,256,631)	1,256,631
Net cash provided by (used in) operating activities	<u>1,859,920</u>	<u>(1,021,806)</u>
Cash Flows from Investing Activities:		
Purchase of equipment and software	(30,076)	(4,324)
Purchase of investments	(10,005)	(180,000)
Proceeds from sale of investments	<u>9,523</u>	<u>663,329</u>
Net cash provided by (used in) investing activities	<u>(30,558)</u>	<u>479,005</u>
Net Change in Cash	<u>1,829,362</u>	<u>(542,801)</u>
Cash:		
Beginning of year	<u>2,349,097</u>	<u>2,891,898</u>
End of year	<u>\$ 4,178,459</u>	<u>\$ 2,349,097</u>

HEALTH LEADS, INC.

Statements of Functional Expenses
For the Years Ended August 31, 2021 and 2020

	2021				2020			
	Program Operations	General and Adminis- trative	Develop- ment	Total	Program Operations	General and Adminis- trative	Develop- ment	Total
Personnel and Related Costs:								
Salaries	\$ 3,547,178	\$ 672,312	\$ 518,074	\$ 4,737,564	\$ 3,818,532	\$ 904,011	\$ 744,473	\$ 5,467,016
Fringe benefits and payroll taxes	821,018	155,611	119,912	1,096,541	867,872	205,463	169,203	1,242,538
Total personnel and related costs	4,368,196	827,923	637,986	5,834,105	4,686,404	1,109,474	913,676	6,709,554
Other Expenses:								
Professional fees and consulting	1,283,601	181,101	68,903	1,533,605	547,765	254,585	25,140	827,490
Facility rental	-	339,690	-	339,690	318,704	52,402	52,402	423,508
Information systems and equipment	38,493	179,584	39,903	257,980	27,521	204,276	21,119	252,916
Miscellaneous	51,594	129,250	5,725	186,569	84,139	129,496	13,742	227,377
Depreciation	-	115,732	-	115,732	63,314	31,658	31,657	126,629
Stipends	77,107	-	-	77,107	43,207	-	-	43,207
Staff, volunteer and board travel	48,143	2,542	-	50,685	196,549	10,483	27,686	234,718
Insurance	-	26,387	-	26,387	-	30,174	-	30,174
Meetings and food	17,195	517	1,599	19,311	21,240	-	3,645	24,885
Recruiting	-	2,430	15,000	17,430	56,821	-	-	56,821
Telephone	935	8,504	-	9,439	2,351	24,236	41	26,628
Printing, postage and reproduction	4,667	1,909	100	6,676	7,588	6,442	145	14,175
Total other expenses	1,521,735	987,646	131,230	2,640,611	1,369,199	743,752	175,577	2,288,528
Subtotal before donated services and facilities	5,889,931	1,815,569	769,216	8,474,716	6,055,603	1,853,226	1,089,253	8,998,082
Donated Services and Facilities:								
Donated regional operations	49,575	-	-	49,575	55,489	-	-	55,489
Donated administrative and professional services	-	8,368	-	8,368	-	139,056	-	139,056
Donated facility usage	-	-	-	-	7,000	-	-	7,000
Total donated services and facilities	49,575	8,368	-	57,943	62,489	139,056	-	201,545
Total expenses	<u>\$ 5,939,506</u>	<u>\$ 1,823,937</u>	<u>\$ 769,216</u>	<u>\$ 8,532,659</u>	<u>\$ 6,118,092</u>	<u>\$ 1,992,282</u>	<u>\$ 1,089,253</u>	<u>\$ 9,199,627</u>

The accompanying notes are an integral part of these statements.

HEALTH LEADS, INC.

Notes to Financial Statements
August 31, 2021 and 2020

1. OPERATIONS AND NONPROFIT STATUS

Operations

Health Leads, Inc. (Health Leads) is a Massachusetts nonprofit corporation formed in 2001 under Chapter 80 of Massachusetts General Laws. Founded in the Boston Medical Center Pediatrics Department in 1996, Health Leads envisions health, dignity and well-being for every person in every community. Health Leads' mission is to partner with communities and health systems to address systemic causes of inequity and disease. Health Leads does this by removing barriers that keep people from identifying, accessing and choosing the resources everyone needs to be healthy.

As with the rest of the world, fiscal year 2021 brought unforeseen challenges and opportunities due to the global Coronavirus Pandemic (COVID-19). Devastating economic downturns, unnecessary illness and deaths, along with a national racial reckoning, continued Health Leads focus on the 'Respond and Rebuild' strategy. While fiscal year 2020 was mostly focused on responding to the pandemic, fiscal year 2021 efforts shifted to designing and supporting collaborations between community and health organizations suffering from the COVID-19 impacts and re-imagining systems that are built for all. The demands of the times aligned with Health Leads' vision, mission and capabilities. We work to:

- **Build lasting partnerships and change power structures** between health care, public health, community-based organizations, and community members to enable community members to make decisions about the living conditions that impact their health.
- **Expand, train and support community-based workforces** who help provide food, housing, and other essential resources to families and communities that need it most.
- **Design and implement shared, crisis-resilient community resource governance** and data networks to offer a complete, real-time picture of essential resource availability and access.
- **Fill knowledge gaps with promising practices** from our innovations and others to spread adoption of racial health equity and influence long-standing policy changes.

Despite the significant changes occurring across the globe, Health Leads nearly doubled the philanthropic raise to approximately \$10,066,000 in fiscal year 2021 versus approximately \$5,148,000 in fiscal year 2020. Other notable accomplishments include aligning partners and funders on a comprehensive two-year U.S. health equity initiative, with an immediate focus of enabling COVID-19 vaccine uptake. This unified and collaborative approach to increasing vaccine confidence and uptake was built upon a co-created set of guiding principles and aims to support the rebuilding of community trust to address racial health disparities and spark a health equity movement.

For three years now, Health Leads has actively built a more robust and diversified fundraising model with a strong pipeline of regional and national funders to ensure our sources of funding are sustainable as well as bifurcated revenue streams through contracts with private and public healthcare systems that are aligned with our new mission and vision. These efforts have resulted in an increase of new partnerships and funders, as evidenced by the significant increase of philanthropic raise from fiscal year 2020 to fiscal year 2021.

Nonprofit Status

Health Leads is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). Health Leads is also exempt from state income taxes. Donors may deduct contributions made to Health Leads within the IRC requirements.

HEALTH LEADS, INC.

Notes to Financial Statements
August 31, 2021 and 2020

2. SIGNIFICANT ACCOUNTING POLICIES

Health Leads prepares its financial statements in accordance with generally accepted accounting standards and principles (U.S. GAAP) established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent 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 Concentration of Credit Risk

For the purpose of the statements of cash flows, cash consists of checking and money market accounts which are held within Health Leads' custody.

Health Leads maintains its cash balances in financial institutions in Massachusetts. At certain times during the year, balances exceeded the insured limits of Federal Deposit Insurance Corporation (FDIC) coverage. Health Leads has not experienced any losses in these accounts and management believes it is not exposed to any significant credit risk on its cash and cash equivalents.

Grants, Pledges and Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are stated at unpaid invoice amounts and consist of program revenue (see pages 10 and 11) amounts due. Accounts receivable are generally due within 45 days of invoice date. The allowance for doubtful grants, pledges and accounts receivable is recorded based on management's analysis of specific receivables and their estimate of amounts that may be uncollectible. As of August 31, 2021 and 2020, the allowance for doubtful accounts was approximately \$9,700 and \$30,000, respectively.

Equipment and Software and Depreciation

Purchased equipment and software are recorded at cost. Donated equipment and software are recorded at fair value at the date of receipt by Health Leads. Depreciation of equipment and software is computed using the straight-line method over a three-year estimated useful life.

As part of certain donated facilities arrangements (see Note 5), Health Leads was allowed the use of certain equipment, furniture and fixtures owned by the donating hospitals.

Investments

Investments include fixed income mutual funds, which are reported at fair value (see below and Note 6).

Gains or losses on investments are recognized as realized upon sale or based on market value changes during the period. These amounts are reported in the accompanying statements of activities without donor restrictions as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law.

Investment income, net of related expenses, is recorded as revenue without donor restrictions unless its use is restricted by explicit donor restrictions.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements

Health Leads follows the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that Health Leads would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

Health Leads uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of Health Leads. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available.

The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

- Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.
- Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3 - Inputs that are unobservable, and which require significant judgment or estimation.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

Revenue Recognition

Grants and Contributions

In accordance with ASC Subtopic 958-605, *Revenue Recognition*, Health Leads must determine whether a contribution (or a promise) is conditional or unconditional for transactions deemed to be a contribution. A contribution is considered to be a conditional contribution if an agreement includes a barrier that must be overcome and either a right of return of assets or a right of release of a promise to transfer assets exists. Indicators of a barrier include a measurable performance-related barrier or another measurable barrier, a stipulation that limits discretion by the recipient on the conduct of an activity, and stipulations that are related to the purpose of the agreement. Topic 958 prescribes that Health Leads should not consider probability of compliance with the barrier when determining if such awards are conditional and should be reported as conditional grant advance liabilities until such conditions are met. See Note 11 for disclosure of Health Leads' conditional grants at August 31, 2021.

HEALTH LEADS, INC.

Notes to Financial Statements
August 31, 2021 and 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Grants and Contributions (Continued)

Health Leads records revenues from grants and individual contributions when received or unconditionally committed. Grants and contributions with donor-imposed restrictions and conditions are reported as an increase in net assets without donor restrictions if the restrictions and conditions expire in the reporting period in which the grant and contribution is recognized. Grants and contributions with donor-imposed time or purpose restrictions are recorded as donor restricted. When a donor stipulated time restriction ends or purpose restriction is met, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities without donor restrictions as net assets released from restrictions.

Program Revenue - Contracts with Customers

Health Leads generally measures revenue from exchange transactions based on the amount of consideration Health Leads expects to be entitled for the transfer of goods or services to a customer, then recognizes this revenue when or as Health Leads satisfies its performance obligations under a contract, except in transactions where U.S. GAAP provides other applicable guidance. Health Leads evaluates its revenue recognition based on the five-step model under Topic 606: (1) Identify the contract with the customer; (2) Identify the performance obligations in the contract; (3) Determine the transaction price; (4) Allocate the transaction price to separate performance obligations; and (5) Recognize revenue when (or as) each performance obligation is satisfied.

Health Leads has consulting contract arrangements with certain healthcare and hospital partners. Revenue from these contracts is included in program revenue in the accompanying statements of activities without donor restrictions. Health Leads determined tasks within a contract are highly interdependent with each other and Health Leads will not fulfill the contract without delivering all deliverables in the contract. The consulting services in a contract are deemed to be a single performance obligation upon contract execution. The performance obligation (the consulting service) is satisfied over time as services are provided. The transaction price is determined based upon hourly rates established by management and the number of hours estimated to complete a contract.

ASC Topic 606 provides for an “as invoiced” practical expedient to allow Health Leads to recognize revenue in the amount to which Health Leads has right to invoice and the invoice amount corresponds directly with the value to the customer of Health Leads’ performance to date. The contract fees are recognized as fees are invoiced over the term of the contract.

Health Leads recognizes revenue from subscriptions over the subscription period, which is generally one year. Subscription contracts contain a single performance obligation for the access to healthcare technology and is recognized ratably as services are simultaneously received and consumed by subscribers. Health Leads requires subscribers to pay in equal monthly installments.

Program revenue also includes fees for services charged to hospital partners related to desk operations. Health Leads staffs desks in emergency rooms to connect patients with resources. Revenue is recognized ratably as services are simultaneously received and consumed by hospital partners.

Fees received in advance of services provided are recorded as deferred revenue. There was no deferred revenue as of August 31, 2021 and 2020.

For the years ended August 31, 2021 and 2020, two customers accounted for 58% and 68%, respectively, of program revenue.

HEALTH LEADS, INC.

Notes to Financial Statements
August 31, 2021 and 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Disaggregation of Program Revenue

The following table presents a disaggregation of program revenue, by type, for the years ended August 30:

	<u>2021</u>	<u>2020</u>
Consulting	\$ 409,079	\$ 376,229
Desk operations	189,606	494,956
Subscription	<u>133,817</u>	<u>193,599</u>
Total	<u>\$ 732,502</u>	<u>\$ 1,064,784</u>

All other revenue is recognized when earned.

Expense Allocation

Expenses related directly to a program or function are distributed to that program or function. Certain categories of expenses that are attributable to both program and supporting functions require an allocation on a reasonable basis that is consistently applied. The expenses that are allocated include personnel and related costs, rent and depreciation, which are allocated based on estimates of time and level of effort, and square footage used by Health Leads' program and support functions.

Donated Services and Facilities

Health Leads receives donated services and facilities in support of various aspects of its programs (see Note 5). The value assigned to these services and facilities for the years ended August 31, 2021 and 2020, was \$57,943 and \$201,545, respectively, based on management's estimate of the fair value of services provided.

Subsequent Events

Subsequent events have been evaluated through January 21, 2022, which is the date the financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the financial statements.

Income Taxes

Health Leads accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the financial statements regarding a tax position taken or expected to be taken in a tax return. Health Leads has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the financial statements at August 31, 2021 and 2020. Health Leads' information returns are subject to examination by the Federal and state jurisdictions.

HEALTH LEADS, INC.

Notes to Financial Statements
August 31, 2021 and 2020

3. NET ASSETS CLASSIFICATION

Net assets without donor restrictions include amounts which bear no external restrictions and are currently available for operations. Health Leads has classified its net assets without donor restrictions into the following categories:

Operating represents the portion of net assets that are available for general operations.

Equipment and software represent the portion of net assets invested in equipment and software.

Net assets with donor restrictions include individual contributions and grants which are designated by donors for specific purposes or time periods. These individual contributions are recorded as net assets with donor restrictions until they are expended for their designated purposes or the time period lapses. Net assets with donor restrictions are restricted as follows as of August 31:

	<u>2021</u>	<u>2020</u>
Time restricted funds	\$ 696,256	\$ 40,000
Specific purpose restricted funds:		
Specific geographic regions	1,881,396	142,371
National capacity	<u>1,157,650</u>	<u>250,000</u>
Total specific purpose restricted funds	<u>3,039,046</u>	<u>392,371</u>
Total net assets with donor restrictions	<u>\$ 3,735,302</u>	<u>\$ 432,371</u>

Specific purpose restricted funds are released dollar-for-dollar as costs for eligible activity are incurred.

4. GRANTS AND PLEDGES RECEIVABLE

Grants and pledges are expected to be received as follows as of August 31:

	<u>2021</u>	<u>2020</u>
Due in one year	\$ 1,740,000	\$ 270,820
Due in one to five years	<u>500,000</u>	<u>40,000</u>
	2,240,000	310,820
Less - current portion	<u>1,740,000</u>	<u>270,820</u>
Long-term portion	<u>\$ 500,000</u>	<u>\$ 40,000</u>

There was no discount on long-term pledges as of August 31, 2021 and 2020, as the amount is immaterial to the accompanying financial statements as a whole.

Three donors' balances represented approximately 86% of the total outstanding grants and pledges balance as of August 31, 2021. Two donors' balances represented approximately 69% of the total outstanding grants and pledges balance as of August 31, 2020.

For the year ended August 31, 2021, one donor's contribution represented approximately 31% of the total operating support and revenues without donor restrictions. For the year ended August 31, 2020, one donor's contribution represented approximately 34% of the total operating support and revenues without donor restrictions.

HEALTH LEADS, INC.

Notes to Financial Statements
August 31, 2021 and 2020

5. DONATED SERVICES AND FACILITIES

In addition to the in-kind services of Health Leads Advocates (volunteers), Health Leads also receives donated rent, legal services and facilities to support its programs and administration (see Note 2). In some cases, Health Leads' Board members are employees of professional service firms providing these donated services. These firms provided legal services valued at \$8,368 and \$139,056 for the years ended August 31, 2021 and 2020, respectively, which are included in donated administrative and professional services in the accompanying statements of functional expenses.

6. INVESTMENTS

The following table presents Health Leads' investments by level within the valuation framework (see Note 2) as of August 31:

	2021			Total
	Level 1	Level 2	Level 3	
Fixed income mutual funds	\$ 631,693	\$ -	\$ -	\$ 631,693
	2020			Total
	Level 1	Level 2	Level 3	
Fixed income mutual funds	\$ 624,882	\$ -	\$ -	\$ 624,882

Mutual funds are valued using Level 1 inputs (see page 9). If an investment is directly held by Health Leads and an active market with quoted prices exists, the market price of an identical security is used to report fair value.

Investments are not insured and are subject to market fluctuations. Investments are presented as current assets in the accompanying statements of financial position based on management's intent.

7. LINE OF CREDIT

Health Leads has a \$500,000 line of credit with up to \$417,740 available which is reviewed annually upon receipt of Health Leads' audit. The line of credit is reduced by the balance of the letter of credit referred to in Note 8. Borrowings under the agreement are due on demand and interest is payable monthly at the bank's base lending rate (3.25% at August 31, 2021 and 2020), plus 1%. The line of credit is secured by all business assets of Health Leads. As of August 31, 2021 and 2020, Health Leads had no outstanding balance under this agreement and was in compliance with the covenants in the agreement.

8. LEASE AGREEMENTS

Health Leads leases office space in Boston, Massachusetts under a lease agreement through March 2023. Health Leads records rent on a straight-line basis over the term of the lease. The difference between the cash lease payments and the related expense for a given year is recorded as deferred rent. The method to straight-line the rent expense combines the escalation amounts and an initial four month rent free period. Total rent expense under this arrangement was approximately \$340,000 for the years ended August 31, 2021 and 2020, and is included in facility rental in the accompanying statements of functional expenses.

At August 31, 2021 and 2020, deferred rent was \$89,099 and \$134,340, respectively, and is included in deferred rent and lease incentive in the accompanying statements of financial position. Amortization of the deferred rent totaled \$45,241 and \$36,159 for the years ended August 31, 2021 and 2020, respectively, and is included in facility rental in the accompanying statements of functional expenses.

HEALTH LEADS, INC.

Notes to Financial Statements
August 31, 2021 and 2020

8. LEASE AGREEMENTS (Continued)

The lease agreement also included a tenant improvement allowance (lease incentive) of \$408,645 in the form of a reimbursement for construction and related costs incurred by Health Leads in fitting out the leased space. This landlord incentive is reported as a liability and is amortized on a straight-line basis over the lease term as a reduction in the rent expense. At August 31, 2021 and 2020, the unamortized tenant improvement allowance was \$88,230 and \$143,955, respectively, and is included in deferred rent and lease incentives in the accompanying statements of financial position. Amortization of the lease incentive was \$55,725 and \$55,724 for the years ended August 31, 2021 and 2020, respectively, and is included in facility rental in the accompanying statements of functional expenses.

Per the terms of the lease agreement, Health Leads was required to deliver to the landlord security of \$82,260 in the form of an irrevocable letter of credit from a bank. Health Leads obtained this letter of credit and named the landlord as its beneficiary through the maturity of the lease.

During fiscal year 2020, Health Leads entered into a sublease agreement for the office space referred to above through March 31, 2023. Total rental income under this arrangement was approximately \$447,000 and \$74,000 for the years ended August 31, 2021 and 2020, respectively, and is included in investment return and other in the accompanying statements of activities without donor restrictions.

Minimum Payments

Future minimum cash lease payments under the lease agreement are as follows for the years ending August 31:

2022	\$ 394,267
2023	<u>233,079</u>
Total	<u>\$ 627,346</u>

Future minimum rental income under the lease agreement is as follows for the years ending August 31:

2022	\$ 456,320
2023	<u>347,348</u>
Total	<u>\$ 803,668</u>

9. RETIREMENT PLAN

Health Leads has a qualified salary reduction Safe Harbor IRC Section 401(k) retirement plan (the Plan) for all eligible employees, as defined in the Plan. Under the Plan, employees may contribute a percentage of their annual salaries, not to exceed the limits set by the IRC. Health Leads makes a safe harbor match contribution to the Plan of up to 4% of the eligible employees' salaries. In addition, Health Leads may make additional discretionary contributions to the Plan. Health Leads contributed \$154,729 and \$182,495 to the Plan during the years ended August 31, 2021 and 2020, respectively, which are included in fringe benefits and payroll taxes in the accompanying statements of functional expenses.

HEALTH LEADS, INC.

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10. LIQUIDITY

Health Leads has a policy to structure its financial assets to be available as its obligations become due. As of August 31, 2021, Health Leads' current financial assets, including uncollected grants, pledges and accounts receivable totaling \$6,639,247, are available for use by Health Leads within one year from the date of the statements of financial position.

Current financial assets are as follows as of August 31:

	<u>2021</u>	<u>2020</u>
Cash	\$ 4,178,459	\$ 2,349,097
Investments	<u>631,693</u>	<u>624,882</u>
	<u>4,810,152</u>	<u>2,973,979</u>
Amounts subject to collection:		
Current portion of grants and pledges receivable (see Note 4)	1,740,000	270,820
Accounts receivable	<u>89,095</u>	<u>226,649</u>
	<u>1,829,095</u>	<u>497,469</u>
Total current financial assets	6,639,247	3,471,448
Less - contractual or donor imposed restrictions, net of amounts intended to be used within one year	<u>3,039,046</u>	<u>142,378</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,600,201</u>	<u>\$ 3,329,070</u>

Health Leads has liquid assets approximating five and four months of operating expenses at August 31, 2021 and 2020, respectively.

11. CONDITIONAL GRANTS

During the year ended August 31, 2020, Health Leads applied for, and was awarded, a loan of \$1,252,000 from the Paycheck Protection Program (PPP) established by the Coronavirus Aid, Relief and Economic Security Act (CARES Act) through a bank and elected to account for the loan as a conditional grant in accordance with ASC Topic 958. The funds were used to pay certain payroll costs, including benefits, as well as rent and utilities during a covered period as defined in the CARES Act. During fiscal year 2021, the balance of the loan and related accrued interest were forgiven by the Small Business Administration (SBA) and Health Leads recorded the loan as grant revenue in the accompanying statement of activities without donor restrictions. As of August 31, 2020, no revenue had been recognized and the full balance of the loan was presented as a conditional advance in the accompanying statement of financial position.

12. CONTINGENCY

The COVID-19 Coronavirus pandemic has triggered widespread government mandated and voluntary business closures, which in turn have led to substantial interruptions in financial markets, employment and the economy as a whole. Though the potential financial effects cannot be reasonably estimated at this time, these circumstances may have adverse effects on Health Leads, its operations and future financial statements. The accompanying financial statements have not been adjusted for any potential financial effects that may occur in the future related to the current uncertainty.

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13. RECLASSIFICATION

Certain amounts in the fiscal year 2020 financial statements have been reclassified to conform with the fiscal year 2021 presentation.