



Better health.  
One connection at a time.

**FINANCIAL STATEMENTS**  
**AUGUST 31, 2018 AND 2017**

**HEALTH LEADS, INC.**

Contents  
August 31, 2018 and 2017

---

	<u><b>Pages</b></u>
<b>Independent Auditor's Report .....</b>	<b>1 - 1A</b>
<b>Financial Statements:</b>	
Statements of Financial Position .....	2
Statements of Activities Without Donor Restrictions .....	3
Statements of Changes in Net Assets .....	4
Statements of Cash Flows .....	5
Statements of Functional Expenses .....	6
Notes to Financial Statements .....	7 - 15

## 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, 2018 and 2017, 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, 2018 and 2017, 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.

***Emphasis of a Matter***

As disclosed in Note 1, during fiscal year 2018, Health Leads, Inc. early adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954): Presentation of Financial Statements of Not-for-Profit Entities*, which aims to provide, among other items, clarity over the classification of net assets, methods used to allocate costs to programmatic and support functions, as well as information concerning liquidity and availability of resources. Our opinion is not modified with respect to this matter.

*Alexander, Brown, Finning & Co., P.C.*

Westborough, Massachusetts  
January 11, 2019

**HEALTH LEADS, INC.**Statements of Financial Position  
August 31, 2018 and 2017

<b>Assets</b>	<b>2018</b>	<b>2017</b>
Current Assets:		
Cash	\$ 2,237,901	\$ 9,853,760
Investments	6,285,473	3,584,486
Current portion of grants and pledges receivable	4,733,985	10,616,235
Accounts receivable	326,214	746,830
Prepaid expenses	153,173	212,627
Total current assets	13,736,746	25,013,938
Grants and Pledges Receivable, net of current portion, discount and allowance	25,000	4,320,794
Equipment and Software	933,338	920,320
Less - accumulated depreciation	411,222	258,541
Net equipment and software	522,116	661,779
Total assets	\$ 14,283,862	\$ 29,996,511
<b>Liabilities and Net Assets</b>		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 423,672	\$ 371,749
Accrued payroll and related	442,468	805,883
Deferred revenue	5,000	20,004
Current portion of deferred rent and lease incentive	82,802	73,721
Total current liabilities	953,942	1,271,357
Deferred Rent and Lease Incentive, net of current portion	370,179	452,225
Total liabilities	1,324,121	1,723,582
Net Assets:		
Without donor restrictions:		
Operating	8,546,143	7,701,703
Equipment and software	522,116	661,779
Total without donor restrictions	9,068,259	8,363,482
With donor restrictions	3,891,482	19,909,447
Total net assets	12,959,741	28,272,929
Total liabilities and net assets	\$ 14,283,862	\$ 29,996,511

**HEALTH LEADS, INC.**Statements of Activities Without Donor Restrictions  
For the Years Ended August 31, 2018 and 2017

---

	<b>2018</b>	<b>2017</b>
<b>Operating Support and Revenues:</b>		
Program revenue	\$ 2,093,188	\$ 2,599,592
Donated services and facilities	992,889	1,135,151
Individual contributions	270,809	219,866
Investment income and other	127,657	118,352
Grants	680	101,336
Investment losses	(13,122)	(29,560)
Net assets released from restrictions:		
Grow and Catalyze capital campaign restrictions	9,628,843	7,124,994
Other purpose restrictions	7,227,828	5,752,930
	<hr/>	<hr/>
Total operating support and revenues	20,328,772	17,022,661
	<hr/>	<hr/>
<b>Operating Expenses:</b>		
Program operations	14,510,740	12,068,409
General and administrative	3,656,054	2,960,147
Development	1,457,201	922,069
	<hr/>	<hr/>
Total operating expenses	19,623,995	15,950,625
	<hr/>	<hr/>
Changes in net assets without donor restrictions	\$ 704,777	\$ 1,072,036
	<hr/>	<hr/>

**HEALTH LEADS, INC.**Statements of Changes in Net Assets  
For the Years Ended August 31, 2018 and 2017

---

<b>Net Assets, August 31, 2016</b>	<u>\$ 25,196,447</u>
Changes in net assets without donor restrictions	<u>1,072,036</u>
Changes in net assets with donor restrictions:	
Contributions	14,882,370
Net assets released from restrictions:	
Grow and Catalyze capital campaign restrictions	(7,124,994)
Other purpose restrictions	<u>(5,752,930)</u>
Total changes in net assets with donor restrictions	<u>2,004,446</u>
Changes in net assets	<u>3,076,482</u>
<b>Net Assets, August 31, 2017</b>	<u>28,272,929</u>
Changes in net assets without donor restrictions	<u>704,777</u>
Changes in net assets with donor restrictions:	
Contributions	1,288,706
Cancelled pledges	(450,000)
Net assets released from restrictions:	
Grow and Catalyze capital campaign restrictions	(9,628,843)
Other purpose restrictions	<u>(7,227,828)</u>
Total changes in net assets with donor restrictions	<u>(16,017,965)</u>
Changes in net assets	<u>(15,313,188)</u>
<b>Net Assets, August 31, 2018</b>	<u><u>\$ 12,959,741</u></u>

**HEALTH LEADS, INC.**Statements of Cash Flows  
For the Years Ended August 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>Cash Flows from Operating Activities:</b>		
Changes in net assets	\$ (15,313,188)	\$ 3,076,482
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation	152,681	142,564
Bad debt	75,000	50,000
Donated stock	(147,040)	(242,848)
Amortization of lease incentive	(55,727)	(55,727)
Deferred rent	(17,238)	(9,671)
Investment losses	13,122	29,560
Changes in operating assets and liabilities:		
Grants and pledges receivable	10,103,044	(4,821,900)
Accounts receivable	420,616	(131,788)
Prepaid expenses	59,454	(29,654)
Accounts payable and accrued expenses	51,923	167,650
Accrued payroll and related	(363,415)	130,052
Deferred revenue	(15,004)	(79,078)
Net cash used in operating activities	<u>(5,035,772)</u>	<u>(1,774,358)</u>
<b>Cash Flows from Investing Activities:</b>		
Purchase of equipment and software	(13,018)	(70,311)
Purchase of investments	(3,451,610)	(2,804,890)
Proceeds from sale of investments	<u>884,541</u>	<u>841,544</u>
Net cash used in investing activities	<u>(2,580,087)</u>	<u>(2,033,657)</u>
<b>Net Change in Cash</b>	<b>(7,615,859)</b>	<b>(3,808,015)</b>
<b>Cash:</b>		
Beginning of year	<u>9,853,760</u>	<u>13,661,775</u>
End of year	<u><u>\$ 2,237,901</u></u>	<u><u>\$ 9,853,760</u></u>



**HEALTH LEADS, INC.**

Statements of Functional Expenses  
For the Years Ended August 31, 2018 and 2017

	2018			2017				
	Program Operations	General and Administrative	Development	Total	Program Operations	Administrative	Development	Total
<b>Personnel and Related Costs:</b>								
Salaries	\$ 7,304,812	\$ 1,886,654	\$ 935,031	\$ 10,126,497	\$ 6,569,479	\$ 1,470,051	\$ 674,068	\$ 8,713,598
Fringe benefits and payroll taxes	1,805,279	358,777	228,199	2,392,255	1,443,906	323,171	148,153	1,915,230
Total personnel and related costs	9,110,091	2,245,431	1,163,230	12,518,752	8,013,385	1,793,222	822,221	10,628,828
<b>Other Expenses:</b>								
Professional fees and consulting	1,401,146	419,953	152,595	1,973,694	1,262,816	456,471	18,000	1,737,287
Staff, volunteer and board travel	950,485	168,327	83,275	1,202,087	691,430	82,124	37,645	811,199
Grants	1,000,000	-	-	1,000,000	-	-	-	-
Miscellaneous	151,734	295,303	10,566	457,603	111,983	201,580	8,242	321,805
Information systems and equipment	186,793	254,442	2,981	444,216	180,165	178,972	-	359,137
Facility rental	231,408	41,819	22,313	295,540	258,830	46,775	24,957	330,562
Meetings and food	235,745	402	10,412	246,559	78,352	24,217	210	102,779
Stipends	188,097	-	-	188,097	247,574	-	-	247,574
Depreciation	119,550	21,604	11,527	152,681	111,628	20,172	10,764	142,564
Telephone	50,108	40,639	302	91,049	-	80,715	-	80,715
Printing, postage and reproduction	48,451	12,377	-	60,828	42,331	10,663	30	53,024
Total other expenses	4,563,517	1,254,866	293,971	6,112,354	2,985,109	1,101,689	99,848	4,186,646
Subtotal before donated services and facilities	13,673,608	3,500,297	1,457,201	18,631,106	10,998,494	2,894,911	922,069	14,815,474
<b>Donated Services and Facilities:</b>								
Donated regional operations	781,526	-	-	781,526	978,915	-	-	978,915
Donated administrative and professional services	-	155,757	-	155,757	-	65,236	-	65,236
Donated facility usage	55,606	-	-	55,606	91,000	-	-	91,000
Total donated services and facilities	837,132	155,757	-	992,889	1,069,915	65,236	-	1,135,151
Total expenses	\$ 14,510,740	\$ 3,656,054	\$ 1,457,201	\$ 19,623,995	\$ 12,068,409	\$ 2,960,147	\$ 922,069	\$ 15,950,625

The accompanying notes are an integral part of these statements.

## HEALTH LEADS, INC.

Notes to Financial Statements  
August 31, 2018 and 2017

---

### 1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES

#### OPERATIONS

Health Leads, Inc. (Health Leads) is a Massachusetts not for profit corporation formed in 2001 under Chapter 80 of Massachusetts General Laws. Founded in the Boston Medical Center Pediatrics Department in 1996, Health Leads envisions a healthcare system that addresses all patients' basic resource needs as a standard part of quality care. Health Leads' mission is to catalyze the healthcare system by connecting patients with the basic resources they need to be healthy, and in doing so, build leaders with the conviction and ability to champion quality care for all patients.

In fiscal year 2018, Health Leads engaged with more than 550 organizations in support of their work to address social needs. In addition, Health Leads' Screening Toolkit was downloaded more than 2,300 times.

These and other achievements capped Health Leads' successful Grow & Catalyze Strategy (fiscal years 2014 through 2018), during which Health Leads helped build awareness nationally about the crucial role essential needs play in driving health outcomes, and shaped operational models healthcare systems can use to address them. Health Leads collaborated with leading healthcare organizations and further supported uptake through the creation of high quality tools and resources such as The Screening Toolkit, Learning Collaboratives, and their proprietary case management technology Health Leads Reach™, which cumulatively helped twenty-five organizations around the country support over 240,000 individuals.

During the fiscal year ended August 31, 2018, Health Leads' co-Founder and Chief Executive Officer (CEO), Rebecca Onie, departed the organization to start a population health organization called The Health Initiative (THI). Health Leads' Board subsequently named long serving Health Leads' executive, Alexandra Quinn, as CEO in January 2018. As part of this leadership transition, Health Leads embarked on an inclusive process engaging with numerous internal and external stakeholders to refine our Vision, Mission, and Values, setting Health Leads' for the next Strategic Plan which will launch in 2019. Health Leads's new vision is a future in which every person in every community lives with health, wellbeing, and dignity.

The new strategy is informed by more than twenty years working closely with hospitals, clinics, and health systems to connect people to essential resources such as food and housing alongside medical care. Health does not happen in clinics alone, and social and environmental factors in our communities have a greater impact on health outcomes than clinical interventions. To co-create solutions that address the true systemic causes of inequity and disease, Health Leads believes care must be anchored in communities rather than in hospitals alone. Thus, Health Leads will be partnering with communities, hospitals, health systems, and community-based organizations to remove barriers that keep people from identifying, choosing, and accessing the resources everyone needs to be healthy.

#### 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, 2018 and 2017

---

### 1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### ADOPTION OF NEW ACCOUNTING STANDARD

In fiscal year 2018, Health Leads early adopted FASB's Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This ASU modified the current guidance over several criteria, of which the following affected Health Leads's financial statements:

- Net assets are segregated into two categories, "with donor restrictions" and "without donor restrictions", as opposed to the previous requirement of three classes of net assets (see Note 2).
- Qualitative and quantitative information relating to management of liquidity and the availability of financial assets to cover short-term cash needs within one year from the statement of financial position date (see Note 9).
- An explanation of the methods used to allocate costs among program and supporting (general and administrative and development) functions (see page 10).

#### 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. Balances at one institution are fully insured by the Federal Deposit Insurance Corporation (FDIC) and the Depositors Insurance Fund (DIF). At certain times during the year, balances at another institution exceeded the insured limits of 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.

#### Allowance for Doubtful Accounts

The allowance for doubtful grants, pledges and accounts receivable is recorded based on management's analysis of specific grants and pledges receivable and their estimate of amounts that may be uncollectible. As of August 31, 2018 and 2017, the allowance for doubtful accounts was approximately \$60,000 and \$93,000, respectively (see Note 3).

## HEALTH LEADS, INC.

Notes to Financial Statements  
August 31, 2018 and 2017

---

### 1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Equipment, Software and Depreciation

Purchased equipment and software are recorded at cost. Donated equipment is 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 4), Health Leads is allowed the use of certain equipment, furniture and fixtures owned by the donating hospitals.

##### Investments

Investments primarily include money market mutual funds, certificates of deposit and corporate bonds which are reported at fair value (see below and Note 5).

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.

##### 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.

## HEALTH LEADS, INC.

Notes to Financial Statements  
August 31, 2018 and 2017

---

### 1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Revenue Recognition

Health Leads records revenues from grants and individual contributions when received or unconditionally committed. 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 accompanying statements of activities without donor restrictions as net assets released from restrictions.

Health Leads has fee-for-service arrangements with certain health center and hospital partners. Revenue from the contracts is included in program revenue in the accompanying statements of activities without donor restrictions. Contract revenue is recorded over the contract period as services are provided. Contract revenue received in advance of services being performed is recorded as deferred revenue. 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 allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries, payroll taxes and employee benefits, rent, and depreciation, which are allocated based on estimates of time and level of effort spent and square footage used by Health Leads's 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 4). The value assigned to these services and facilities for the years ended August 31, 2018 and 2017, was \$992,889 and \$1,135,151, respectively, based on management's estimate of the fair value of services provided.

##### Subsequent Events

Subsequent events have been evaluated through January 11, 2019, 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, 2018 and 2017. Health Leads's information returns are subject to examination by the Federal and state jurisdictions.

## HEALTH LEADS, INC.

Notes to Financial Statements  
August 31, 2018 and 2017

---

### 2. 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>2018</u>	<u>2017</u>
Specific purpose restricted funds:		
National capacity	\$ 3,588,978	\$ 9,287,254
Specific geographic regions	<u>302,504</u>	<u>865,837</u>
Total specific purpose restricted funds	3,891,482	10,153,091
 Grow and Catalyze capital campaign (see Note 1)	 <u>-</u>	 <u>9,756,356</u>
 Total net assets with donor restrictions	 <u>\$ 3,891,482</u>	 <u>\$ 19,909,447</u>

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

The Grow and Catalyze capital campaign was designed to develop the product portfolio and pursue transformative relationships, catalyze the health care system to address patients' resource needs, and increase the operating reserves of Health Leads. The funds were restricted to cover operating expenses related to the time period from March 1, 2014 to August 31, 2018, and to directly fund expansion of reserves.

### 3. GRANTS AND PLEDGES RECEIVABLE

Grants and pledges receivable are recorded at their present value using a 1% discount rate against the long-term portion of the grants and pledges where material. Grants and pledges are expected to be received as follows as of August 31:

	<u>2018</u>	<u>2017</u>
Due in one year	\$ 4,794,360	\$ 10,616,235
Due in one to five years	<u>25,000</u>	<u>4,459,500</u>
	4,819,360	15,075,735
Less - discount	-	(45,706)
Less - allowance for doubtful accounts	<u>(60,375)</u>	<u>(93,000)</u>
	4,758,085	14,937,029
Less - current portion	<u>4,733,985</u>	<u>10,616,235</u>
 Long-term portion	 <u>\$ 25,000</u>	 <u>\$ 4,320,794</u>

There was no discount as of August 31, 2018, as it is immaterial to the financial statements as a whole.

## HEALTH LEADS, INC.

Notes to Financial Statements  
August 31, 2018 and 2017

---

### 3. GRANTS AND PLEDGES RECEIVABLE (Continued)

Two donors' pledge balances represented approximately 40% of the total outstanding grants and pledges balance as of August 31, 2018. Four donors' pledge balances represented approximately 58% of the total outstanding grants and pledges balance as of August 31, 2017.

For the year ended August 31, 2018, two donors' contributions represented approximately 33% of the total operating support and revenues without donor restrictions. For the year ended August 31, 2017, three donors' contributions represented approximately 61% of the total operating support and revenues without donor restrictions.

### 4. 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 1). In some cases, Health Leads' Board members are employees of professional service firms providing these donated services. These firms provided legal services valued at \$155,757 and \$65,236 for the years ended August 31, 2018 and 2017, respectively, which are included in donated administrative and professional services in the accompanying statements of functional expenses and the table below.

The value of donated services and facilities as estimated by management was as follows for the years ended August 31:

	<u>2018</u>	<u>2017</u>
Regional operations:		
Advocates (volunteers)	\$ 781,526	\$ 978,915
Facility usage	55,606	91,000
Administrative and professional services	<u>155,757</u>	<u>65,236</u>
Total donated services and facilities	<u>\$ 992,889</u>	<u>\$ 1,135,151</u>

### 5. INVESTMENTS

The following table presents Health Leads's investments by level within the valuation framework (see Note 1) as of August 31:

	<u>2018</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market mutual funds	\$ 5,086,141	\$ -	\$ -	\$ 5,086,141
Fixed income:				
Certificates of deposit	<u>-</u>	<u>1,199,332</u>	<u>-</u>	<u>1,199,332</u>
Total	<u>\$ 5,086,141</u>	<u>\$ 1,199,332</u>	<u>\$ -</u>	<u>\$ 6,285,473</u>

  

	<u>2017</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market mutual funds	\$ 1,414,777	\$ -	\$ -	\$ 1,414,777
Fixed income:				
Certificates of deposit	-	1,422,339	-	1,422,339
Corporate bonds	<u>-</u>	<u>747,370</u>	<u>-</u>	<u>747,370</u>
Total	<u>\$ 1,414,777</u>	<u>\$ 2,169,709</u>	<u>\$ -</u>	<u>\$ 3,584,486</u>

## HEALTH LEADS, INC.

Notes to Financial Statements  
August 31, 2018 and 2017

---

### 5. INVESTMENTS (Continued)

Mutual funds are valued based on published share prices issued by the fund managers (Level 1 inputs).

Level 2 investments consist of certificates of deposit and corporate bonds. Certificates of deposit are valued at the original investment and accrued contractual interest rates. The value for these bonds is determined using other observable inputs such as prevailing interest rates, the market demand for such bonds, and the dates of maturity and purchase of the bonds.

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.

Net investment losses consist of the following for the years ended August 31:

	<u>2018</u>	<u>2017</u>
Unrealized gains (losses)	\$ 37,583	\$ (34,661)
Realized gains (losses)	<u>(50,705)</u>	<u>5,101</u>
	<u>\$ (13,122)</u>	<u>\$ (29,560)</u>

### 6. LINE OF CREDIT

Health Leads has available up to \$500,000 under a revolving line of credit agreement that is reviewed annually upon receipt of Health Leads's audit. The total available amount of the line of credit is reduced by the balance of the letter of credit referred to in Note 7. Borrowings under the agreement are due on demand and interest is payable monthly at the bank's base lending rate (3.50% at August 31, 2018 and 2017), plus 1%. The line of credit is secured by all business assets of Health Leads. As of August 31, 2018 and 2017, Health Leads had no outstanding balance under this agreement and was in compliance with the covenants in the agreement.

### 7. LEASE AGREEMENTS

#### National Office

In August 2015, Health Leads entered into a lease agreement for new office space in Boston, Massachusetts through March 2023. Monthly rent payments of \$28,757 are due and increase throughout the lease term, as defined in the lease agreement. 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. At August 31, 2018 and 2017, deferred rent was \$197,580 and \$214,818, respectively, and is included in deferred rent and lease incentive in the accompanying statements of financial position. Amortization of the deferred rent totaled \$17,238 and \$9,671, respectively, for the years ended August 31, 2018 and 2017, and is included in facility rental in the accompanying statements of functional expenses.

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. The leasehold improvements were completed and Health Leads occupied the space during the year ended August 31, 2016. 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.



## HEALTH LEADS, INC.

Notes to Financial Statements  
August 31, 2018 and 2017

---

### 7. LEASE AGREEMENTS (Continued)

#### National Office (Continued)

At August 31, 2018 and 2017, the unamortized tenant improvement allowance was \$255,401 and \$311,128, respectively, and is included in deferred rent and lease incentives in the accompanying statements of financial position. Amortization of the lease incentive was \$55,727 for the years ended August 31, 2018 and 2017, and is included in facility rental in the accompanying financial statements.

Per the terms of the new lease agreement, Health Leads was required to deliver to the landlord security of \$86,270 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.

#### Minimum Payments

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

2019	\$ 367,024
2020	\$ 376,105
2021	\$ 385,186
2022	\$ 394,267
2023	\$ 233,079

### 7. 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 \$297,779 and \$244,345 to the Plan during the years ended August 31, 2018 and 2017, respectively, which are included in fringe benefits and payroll taxes in the accompanying statements of functional expenses.

### 9. LIQUIDITY

Health Leads has a policy to structure its financial assets to be available as its obligations become due. As of August 31, 2018, Health Leads' current financial assets including uncollected grants, pledges and accounts receivable, totaling \$13,583,573, are available for use by Health Leads within one year from the date of the statement of financial position.

Current financial assets are as follows as of August 31, 2018:

Cash and cash equivalents	\$ 2,237,901
Investments	<u>6,285,473</u>
	<u>8,523,374</u>
Amounts subject to collection:	
Current portion of grants and pledges receivable (see Note 3)	4,733,985
Accounts receivable	<u>326,214</u>
	<u>5,060,199</u>
Total current financial assets	<u>\$ 13,583,573</u>

## **HEALTH LEADS, INC.**

Notes to Financial Statements  
August 31, 2018 and 2017

---

### **9. LIQUIDITY (Continued)**

Health Leads has strategically increased their operating net assets, in part by releases from the Grow and Catalyze capital campaign (see Note 2). Health Leads has approximately eight months of operating expenses at August 31, 2018.

### **10. RELATED PARTY TRANSACTIONS**

During fiscal year 2018, Health Leads provided \$1,000,000 in grant support to The Health Initiative (THI), a new non-profit organization formed and led by Rebecca Onie, Health Leads former CEO, subsequent to her leaving Health Leads in 2017 (see Note 1). The activities of THI are synergistic with Health Leads' programmatic activities and this grant funding has been recorded in operating expenses in the accompanying financial statements. Since Ms. Onie's resignation she has had no governance or managerial authority with Health Leads.

### **11. RECLASSIFICATIONS**

Certain amounts in the August 31, 2017 financial statements have been reclassified to conform to the August 31, 2018 presentation.