



FINANCIAL STATEMENTS
AUGUST 31, 2020 AND 2019

HEALTH LEADS, INC.

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August 31, 2020 and 2019

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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, 2020 and 2019, 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, 2020 and 2019, 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 29, 2021

HEALTH LEADS, INC.Statements of Financial Position
August 31, 2020 and 2019

Assets	2020	2019
Current Assets:		
Cash	\$ 2,349,097	\$ 2,891,898
Investments	624,882	946,842
Current portion of grants and pledges receivable	270,820	1,707,698
Accounts receivable, net of allowance for doubtful accounts	226,649	353,172
Prepaid expenses	83,888	134,680
Total current assets	<u>3,555,336</u>	<u>6,034,290</u>
Grants and Pledges Receivable, net of current portion	<u>40,000</u>	<u>350,000</u>
Equipment and Software	936,092	931,768
Less - accumulated depreciation	<u>681,050</u>	<u>554,421</u>
Net equipment and software	<u>255,042</u>	<u>377,347</u>
Total assets	<u>\$ 3,850,378</u>	<u>\$ 6,761,637</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 159,548	\$ 257,520
Accrued payroll and related	83,380	156,095
Current portion of deferred rent and lease incentive	<u>100,965</u>	<u>91,884</u>
Total current liabilities	<u>343,893</u>	<u>505,499</u>
Long-Term Liabilities:		
Deferred rent and lease incentive, net of current portion	177,330	278,294
Conditional advance	<u>1,256,631</u>	<u>-</u>
Total long-term liabilities	<u>1,433,961</u>	<u>278,294</u>
Total liabilities	<u>1,777,854</u>	<u>783,793</u>
Net Assets:		
Without donor restrictions:		
Operating	1,385,111	3,843,564
Equipment and software	<u>255,042</u>	<u>377,347</u>
Total without donor restrictions	1,640,153	4,220,911
With donor restrictions	<u>432,371</u>	<u>1,756,933</u>
Total net assets	<u>2,072,524</u>	<u>5,977,844</u>
Total liabilities and net assets	<u>\$ 3,850,378</u>	<u>\$ 6,761,637</u>

HEALTH LEADS, INC.Statements of Activities Without Donor Restrictions
For the Years Ended August 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating Support and Revenues:		
Program revenue	\$ 1,064,784	\$ 1,553,500
Individual contributions	827,174	191,898
Donated services and facilities	201,545	692,854
Investment return and other	115,409	151,221
Grants	53,895	114,217
Net assets released from restrictions:		
Other purpose restrictions	4,356,062	6,281,547
	<u>6,618,869</u>	<u>8,985,237</u>
Total operating support and revenues		
	<u>6,618,869</u>	<u>8,985,237</u>
Operating Expenses:		
Program operations	6,118,092	9,382,459
General and administrative	1,992,282	2,997,265
Development	1,089,253	1,452,861
	<u>9,199,627</u>	<u>13,832,585</u>
Total operating expenses		
	<u>9,199,627</u>	<u>13,832,585</u>
Changes in net assets without donor restrictions	<u>\$ (2,580,758)</u>	<u>\$ (4,847,348)</u>

HEALTH LEADS, INC.Statements of Changes in Net Assets
For the Years Ended August 31, 2020 and 2019

Net Assets, August 31, 2018	\$ 12,959,741
Change in net assets without donor restrictions	<u>(4,847,348)</u>
Changes in net assets with donor restrictions:	
Contributions	4,186,998
Cancelled pledges	(40,000)
Net assets released from purpose restrictions	<u>(6,281,547)</u>
Total changes in net assets with donor restrictions	<u>(2,134,549)</u>
Changes in net assets	<u>(6,981,897)</u>
Net Assets, August 31, 2019	5,977,844
Change in net assets without donor restrictions	<u>(2,580,758)</u>
Changes in net assets with donor restrictions:	
Contributions	3,031,500
Net assets released from purpose restrictions	<u>(4,356,062)</u>
Total changes in net assets with donor restrictions	<u>(1,324,562)</u>
Changes in net assets	<u>(3,905,320)</u>
Net Assets, August 31, 2020	<u><u>\$ 2,072,524</u></u>

HEALTH LEADS, INC.Statements of Cash Flows
For the Years Ended August 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ (3,905,320)	\$ (6,981,897)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation	126,629	143,239
Bad debt	-	80,635
Donated stock	(158,932)	(25,141)
Amortization of lease incentive	(55,724)	(55,724)
Deferred rent	(36,159)	(27,079)
Investment gains	(2,437)	(927)
Loss on disposal of property and equipment	-	1,570
Changes in operating assets and liabilities:		
Grants and pledges receivable	1,746,878	2,658,813
Accounts receivable	126,523	(65,119)
Prepaid expenses	50,792	18,493
Accounts payable and accrued expenses	(97,972)	(171,152)
Accrued payroll and related	(72,715)	(286,373)
Conditional advance	1,256,631	-
Net cash used in operating activities	<u>(1,021,806)</u>	<u>(4,710,662)</u>
Cash Flows from Investing Activities:		
Purchase of equipment and software	(4,324)	-
Purchase of investments	(180,000)	(744,072)
Proceeds from sale of investments	663,329	6,108,731
Net cash provided by investing activities	<u>479,005</u>	<u>5,364,659</u>
Net Change in Cash	(542,801)	653,997
Cash:		
Beginning of year	<u>2,891,898</u>	<u>2,237,901</u>
End of year	<u>\$ 2,349,097</u>	<u>\$ 2,891,898</u>

HEALTH LEADS, INC.

 Statements of Functional Expenses
 For the Years Ended August 31, 2020 and 2019

	2020				2019			
	Program Operations	General and Administrative	Development	Total	Program Operations	General and Administrative	Development	Total
Personnel and Related Costs:								
Salaries	\$ 3,818,532	\$ 904,011	\$ 744,473	\$ 5,467,016	\$ 5,582,612	\$ 1,337,636	\$ 1,050,728	\$ 7,970,976
Fringe benefits and payroll taxes	867,872	205,463	169,203	1,242,538	1,336,538	320,322	251,617	1,908,477
Total personnel and related costs	4,686,404	1,109,474	913,676	6,709,554	6,919,150	1,657,958	1,302,345	9,879,453
Other Expenses:								
Professional fees and consulting	547,765	254,585	25,140	827,490	717,076	413,485	17,497	1,148,058
Facility rental	318,704	52,402	52,402	423,508	189,533	63,178	63,178	315,889
Information systems and equipment	27,521	204,276	21,119	252,916	44,153	288,905	-	333,058
Staff, volunteer and board travel	196,549	10,483	27,686	234,718	600,605	11,243	23,602	635,450
Miscellaneous	84,139	129,496	13,742	227,377	126,012	260,850	13,882	400,744
Depreciation	63,314	31,658	31,657	126,629	85,943	28,648	28,648	143,239
Recruiting	56,821	-	-	56,821	-	-	-	-
Stipends	43,207	-	-	43,207	103,745	-	-	103,745
Insurance	-	30,174	-	30,174	-	30,718	-	30,718
Telephone	2,351	24,236	41	26,628	11,692	49,423	750	61,865
Meetings and food	21,240	-	3,645	24,885	36,432	4,390	2,959	43,781
Printing, postage and reproduction	7,588	6,442	145	14,175	35,233	8,498	-	43,731
Total other expenses	1,369,199	743,752	175,577	2,288,528	1,950,424	1,159,338	150,516	3,260,278
Subtotal before donated services and facilities	6,055,603	1,853,226	1,089,253	8,998,082	8,869,574	2,817,296	1,452,861	13,139,731
Donated Services and Facilities:								
Donated administrative and professional services	-	139,056	-	139,056	-	179,969	-	179,969
Donated regional operations	55,489	-	-	55,489	470,675	-	-	470,675
Donated facility usage	7,000	-	-	7,000	42,210	-	-	42,210
Total donated services and facilities	62,489	139,056	-	201,545	512,885	179,969	-	692,854
Total expenses	\$ 6,118,092	\$ 1,992,282	\$ 1,089,253	\$ 9,199,627	\$ 9,382,459	\$ 2,997,265	\$ 1,452,861	\$ 13,832,585

The accompanying notes are an integral part of these statements.

HEALTH LEADS, INC.

Notes to Financial Statements
August 31, 2020 and 2019

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 2020 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 led Health Leads to pivot its focus from the 'Building Community Health' strategy that had started in fiscal year 2019 to 'Respond and Rebuild.' While similar to the original strategy, Health Leads recognized the challenge ahead was to fill critical gaps in essential health resources, while also designing and supporting collaborations between community and health organizations suffering from the COVID-19 impacts. 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 and within Health Leads in fiscal year 2020, we increased the non-capital philanthropic raise to approximately \$4,200,000 and \$1,064,000 in earned revenue. In addition, because Health Leads was already a partially virtual organization, transitioning to become fully virtual forced by the COVID-19 shutdowns, our staff's energy quickly focused on supporting communities externally rather than focusing on internal logistics and operational needs of staff.

In fiscal year 2018, Health Leads underwent a Chief Executive Officer (CEO) transition and wrapped up its Grow & Catalyze Capital period (2014-2018). The strategy was funded by a \$35 million dollar capital campaign from a small number of donors which was gradually drawn down over a four-year period and provided millions of dollars of reserves. The strategy was designed to support a market-based approach to support healthcare transformation, anchored on healthcare systems addressing social determinants of health as a standard part of their clinical practices. 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.

Health Leads shift in strategy has resulted in a shift in our revenue strategy. Health Leads will no longer pursue multi-million dollar reserves, but instead seeks to maintain a targeted four months of reserve on hand as is a standard best practice for financially healthy and sustainable not-for-profit organizations. Doing so allows us to live up to our commitment to equity in our philanthropic partnerships work - ensuring that we responsibly cover our expenses while not absorbing more philanthropic investment than needed. For over two 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 more sustainable going forward, and bifurcated revenue streams through contracts with private and public healthcare systems that are aligned with our new mission and vision.

HEALTH LEADS, INC.

Notes to Financial Statements
August 31, 2020 and 2019

1. OPERATIONS AND NONPROFIT STATUS (Continued)

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.

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).

Adoption of New Accounting Standards

Revenue Recognition – Contributions Received

During fiscal year 2020, Health Leads adopted FASB's Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU assists Health Leads in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions. In addition, it clarifies whether a contribution is conditional. As a result, it enhances comparability of financial information among not-for-profit entities. Health Leads adopted ASU 2018-08 using a modified prospective method effective September 1, 2019. Under the modified prospective method, this ASU only applies to agreements not completed or entered into (revenue or expense that has not yet been recognized) as of September 1, 2019. As a result, the fiscal year 2019 financial statements are not restated and there was no cumulative-effect adjustment to opening net assets as of September 1, 2019.

Revenue Recognition - Revenue from Contracts with Customers

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Topic 606 supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and requires the reporting entity to recognize revenues when control of promised goods or services is transferred to customers and at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

On September 1, 2019, Health Leads adopted Topic 606 using the modified retrospective method applied to those contracts which were not completed as of September 1, 2019 (the practical expedient elected). Results for reporting periods beginning after September 1, 2019, are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with Health Leads' historic accounting under Topic 605. There were no material changes in the timing of recognition of revenue and, therefore, there was no adjustment to the opening balance of net assets as a result of adopting Topic 606.

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.

HEALTH LEADS, INC.

Notes to Financial Statements
August 31, 2020 and 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 at another institution 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, 2020 and 2019, the allowance for doubtful accounts was approximately \$30,000 and \$38,000, 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 is allowed the use of certain equipment, furniture and fixtures owned by the donating hospitals.

Investments

Investments primarily include fixed income mutual funds, which are reported at fair value (see pages 9 and 10 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.

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.

HEALTH LEADS, INC.

Notes to Financial Statements
August 31, 2020 and 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

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

Contributions

In accordance with *Topic 958*, 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 statements of activities without donor restrictions as net assets released from restrictions.

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 in which they depend have been met. A contribution is considered to be conditional 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 exists. See Note 11 for conditional grants.

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, INC.

Notes to Financial Statements
August 31, 2020 and 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Program Revenue – Contracts with Customers (Continued)

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 “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 in the accompanying statements of financial position. There was no deferred revenue as of August 31, 2020 and 2019.

For the years ended August 31, 2020 and 2019, two customers accounted for 68% and 62%, respectively, of program revenue.

Disaggregation of Program Revenue

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

	<u>2020</u>	<u>2019</u>
Desk operations	\$ 494,956	\$ 779,725
Consulting	376,229	420,826
Subscription	<u>193,599</u>	<u>352,949</u>
Total	<u>\$ 1,064,784</u>	<u>\$ 1,553,500</u>

All other revenue is recognized when earned.

HEALTH LEADS, INC.

Notes to Financial Statements
August 31, 2020 and 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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' 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, 2020 and 2019, was \$201,545 and \$692,854, respectively, based on management's estimate of the fair value of services provided.

Subsequent Events

Subsequent events have been evaluated through January 29, 2021, 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, 2020 and 2019. Health Leads' information returns are subject to examination by the Federal and state jurisdictions.

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.

HEALTH LEADS, INC.

Notes to Financial Statements
August 31, 2020 and 2019

3. NET ASSETS CLASSIFICATION (Continued)

Net assets with donor restrictions are restricted as follows as of August 31:

	<u>2020</u>	<u>2019</u>
Time restricted funds	\$ 40,000	\$ 1,756,933
Specific purpose restricted funds:		
National capacity	250,000	-
Specific geographic regions	<u>142,371</u>	<u>-</u>
Total specific purpose restricted funds	<u>392,371</u>	<u>-</u>
Total net assets with donor restrictions	<u>\$ 432,371</u>	<u>\$ 1,756,933</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>2020</u>	<u>2019</u>
Due in one year	\$ 270,820	\$ 1,712,500
Due in one to five years	<u>40,000</u>	<u>350,000</u>
	310,820	2,062,500
Less - discount	<u>-</u>	<u>(4,802)</u>
	310,820	2,057,698
Less - current portion	<u>270,820</u>	<u>1,707,698</u>
Long-term portion	<u>\$ 40,000</u>	<u>\$ 350,000</u>

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

Two donors' pledge balances represented approximately 69% of the total outstanding grants and pledges balance as of August 31, 2020. Five donors' pledge balances represented approximately 90% of the total outstanding grants and pledges balance as of August 31, 2019.

For the year ended August 31, 2020, one donor's contribution represented approximately 34% of the total operating support and revenues without donor restrictions. For the year ended August 31, 2019, four donors' contributions represented approximately 50% of the total operating support and revenues without donor restrictions.

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 \$139,056 and \$179,969 for the years ended August 31, 2020 and 2019, respectively, which are included in donated administrative and professional services in the accompanying statements of functional expenses and the table on page 14.

HEALTH LEADS, INC.

Notes to Financial Statements
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5. DONATED SERVICES AND FACILITIES (Continued)

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

	<u>2020</u>	<u>2019</u>
Regional operations:		
Advocates (volunteers)	\$ 55,489	\$ 470,675
Administrative and professional services	139,056	179,969
Facility usage	<u>7,000</u>	<u>42,210</u>
Total donated services and facilities	<u>\$ 201,545</u>	<u>\$ 692,854</u>

6. INVESTMENTS

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

	<u>2020</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fixed income mutual funds	<u>\$ 624,882</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 624,882</u>
	<u>2019</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fixed income mutual funds	<u>\$ 946,842</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 946,842</u>

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

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% and 5.25% at August 31, 2020 and 2019, respectively), plus 1%. The line of credit is secured by all business assets of Health Leads. As of August 31, 2020 and 2019, 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 and \$315,000 for the years ended August 31, 2020 and 2019, respectively, and is included in facility rental in the accompanying statements of functional expenses.

HEALTH LEADS, INC.

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8. LEASE AGREEMENTS (Continued)

At August 31, 2020 and 2019, deferred rent was \$134,340 and \$170,499, respectively, and is included in deferred rent and lease incentive in the accompanying statements of financial position. Amortization of the deferred rent totaled \$36,159 and \$27,079 for the years ended August 31, 2020 and 2019, respectively, 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. 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, 2020 and 2019, the unamortized tenant improvement allowance was \$143,955 and \$199,679, respectively, and is included in deferred rent and lease incentives in the accompanying statements of financial position. Amortization of the lease incentive was \$55,724 for the years ended August 31, 2020 and 2019, 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 above office space through March 31, 2023. Total rental income under this arrangement was approximately \$74,000 for the year ended August 31, 2020, and is included in interest return and other in the accompanying statement 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:

2021	\$ 407,554
2022	394,267
2023	<u>233,079</u>
Total	<u>\$ 1,034,900</u>

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

2021	\$ 447,239
2022	456,320
2023	<u>347,348</u>
Total	<u>\$ 1,250,907</u>

8. 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 \$182,495 and \$277,505 to the Plan during the years ended August 31, 2020 and 2019, respectively, which are included in fringe benefits and payroll taxes in the accompanying statements of functional expenses.

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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, 2020, Health Leads' current financial assets, including uncollected grants, pledges and accounts receivable totaling \$3,471,448, 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>2020</u>	<u>2019</u>
Cash	\$ 2,349,097	\$ 2,891,898
Investments	<u>624,882</u>	<u>946,842</u>
	<u>2,973,979</u>	<u>3,838,740</u>
Amounts subject to collection:		
Current portion of grants and pledges receivable (see Note 4)	270,820	1,707,698
Accounts receivable	<u>226,649</u>	<u>353,172</u>
	<u>497,469</u>	<u>2,060,870</u>
Total current financial assets	<u>\$ 3,471,448</u>	<u>\$ 5,899,610</u>

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

11. CONDITIONAL GRANTS

Health Leads applied for and was awarded a loan of \$1,252,000 from the Paycheck Protection Program established by the Coronavirus Aid, Relief and Economic Security Act (CARES Act) through a bank. The funds will be used to pay certain payroll costs, including benefits as well as rent and utilities during a covered period as defined in the CARES Act. A portion of these funds may be forgiven, as defined in the agreement, at the end of the covered period and the remainder of the funds will be due over a two-year period with interest at 1%. Any repayment will be deferred for a period of ten months from the end of the covered period, when the note, plus interest, will be due in equal monthly payments through the maturity date as defined by the bank. The forgiveness calculations are subject to review and approval by the lending bank and the Small Business Administration (SBA). In the opinion of management, the results of such reviews, will not have a material effect on the financial position of Health Leads as of August 31, 2020, and on the changes in its net assets for the years then ended.

Health Leads believes there is not more than a remote chance this loan will not be forgiven and, therefore, is accounting for it as a conditional grant under ASC Subtopic 958-605. It is determined that this grant is conditional upon certain performance requirements and the incurrence of eligible expenses. Amounts received are recognized as revenue when Health Leads has incurred expenditures in compliance with the loan application and CARES Act requirements. As of August 31, 2020, Health Leads has not recognized any grant revenue on the award. The remaining balance of \$1,252,000 is shown as a conditional advance in the accompanying statement of financial position as of August 31, 2020.

12. RECLASSIFICATIONS

Certain amounts in the August 31, 2019 financial statements have been reclassified to conform to the August 31, 2020 presentation.

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13. CONTINGENCY

In March 2020, the coronavirus (COVID-19) pandemic emerged in the United States triggering 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.