



FINANCIAL STATEMENTS
AUGUST 31, 2019 AND 2018

HEALTH LEADS, INC.

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August 31, 2019 and 2018

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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, 2019 and 2018, 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, 2019 and 2018, 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 10, 2020

HEALTH LEADS, INC.Statements of Financial Position
August 31, 2019 and 2018

Assets	2019	2018
Current Assets:		
Cash	\$ 2,891,898	\$ 2,237,901
Investments	946,842	6,285,473
Current portion of grants and pledges receivable, net of allowance for doubtful accounts	1,669,537	4,733,985
Accounts receivable	391,333	326,214
Prepaid expenses	134,680	153,173
Total current assets	<u>6,034,290</u>	<u>13,736,746</u>
Grants and Pledges Receivable, net of current portion	<u>350,000</u>	<u>25,000</u>
Equipment and Software	931,768	933,338
Less - accumulated depreciation	<u>554,421</u>	<u>411,222</u>
Net equipment and software	<u>377,347</u>	<u>522,116</u>
Total assets	<u>\$ 6,761,637</u>	<u>\$ 14,283,862</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 257,520	\$ 428,672
Accrued payroll and related	<u>156,095</u>	<u>442,468</u>
Total current liabilities	413,615	871,140
Deferred Rent and Lease Incentive	<u>370,178</u>	<u>452,981</u>
Total liabilities	<u>783,793</u>	<u>1,324,121</u>
Net Assets:		
Without donor restrictions:		
Operating	3,843,564	8,546,143
Equipment and software	<u>377,347</u>	<u>522,116</u>
Total without donor restrictions	4,220,911	9,068,259
With donor restrictions	<u>1,756,933</u>	<u>3,891,482</u>
Total net assets	<u>5,977,844</u>	<u>12,959,741</u>
Total liabilities and net assets	<u>\$ 6,761,637</u>	<u>\$ 14,283,862</u>

HEALTH LEADS, INC.Statements of Activities Without Donor Restrictions
For the Years Ended August 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating Support and Revenues:		
Program revenue	\$ 1,553,500	\$ 2,093,188
Donated services and facilities	692,854	992,889
Individual contributions	191,898	270,809
Investment return and other	151,221	114,535
Grants	114,217	680
Net assets released from restrictions:		
Grow and Catalyze capital campaign restrictions	-	9,628,843
Other purpose restrictions	6,281,547	7,227,828
	<u>8,985,237</u>	<u>20,328,772</u>
Operating Expenses:		
Program operations	9,382,459	14,510,740
General and administrative	2,997,265	3,656,054
Development	1,452,861	1,457,201
	<u>13,832,585</u>	<u>19,623,995</u>
Changes in net assets without donor restrictions	<u>\$ (4,847,348)</u>	<u>\$ 704,777</u>

HEALTH LEADS, INC.Statements of Changes in Net Assets
For the Years Ended August 31, 2019 and 2018

Net Assets, August 31, 2017	<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 pledge	(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>
Net Assets, August 31, 2018	<u>12,959,741</u>
Changes 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	<u>\$ 5,977,844</u>

HEALTH LEADS, INC.Statements of Cash Flows
For the Years Ended August 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ (6,981,897)	\$ (15,313,188)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation	143,239	152,681
Bad debt	80,635	75,000
Donated stock	(25,141)	(147,040)
Amortization of lease incentive	(55,724)	(55,727)
Deferred rent	(27,079)	(17,238)
Investment gains	(927)	13,122
Loss on disposal of property and equipment	1,570	-
Changes in operating assets and liabilities:		
Grants and pledges receivable	2,658,813	10,103,044
Accounts receivable	(65,119)	420,616
Prepaid expenses	18,493	59,454
Accounts payable and accrued expenses	(171,152)	36,919
Accrued payroll and related	(286,373)	(363,415)
Net cash used in operating activities	<u>(4,710,662)</u>	<u>(5,035,772)</u>
Cash Flows from Investing Activities:		
Purchase of equipment and software	-	(13,018)
Purchase of investments	(744,072)	(3,451,610)
Proceeds from sale of investments	6,108,731	884,541
Net cash provided by (used in) investing activities	<u>5,364,659</u>	<u>(2,580,087)</u>
Net Change in Cash	653,997	(7,615,859)
Cash:		
Beginning of year	<u>2,237,901</u>	<u>9,853,760</u>
End of year	<u>\$ 2,891,898</u>	<u>\$ 2,237,901</u>

HEALTH LEADS, INC.

 Statements of Functional Expenses
 For the Years Ended August 31, 2019 and 2018

	2019				2018			
	Program Operations	General and Administrative	Development	Total	Program Operations	General and Administrative	Development	Total
Personnel and Related Costs:								
Salaries	\$ 5,582,612	\$ 1,337,636	\$ 1,050,728	\$ 7,970,976	\$ 7,304,812	\$ 1,886,654	\$ 935,031	\$ 10,126,497
Fringe benefits and payroll taxes	1,336,538	320,322	251,617	1,908,477	1,805,279	358,777	228,199	2,392,255
Total personnel and related costs	6,919,150	1,657,958	1,302,345	9,879,453	9,110,091	2,245,431	1,163,230	12,518,752
Other Expenses:								
Professional fees and consulting	717,076	444,203	17,497	1,178,776	1,401,146	419,953	152,595	1,973,694
Staff, volunteer and board travel	600,605	11,243	23,602	635,450	950,485	168,327	83,275	1,202,087
Miscellaneous	126,012	260,850	13,882	400,744	151,734	295,303	10,566	457,603
Information systems and equipment	44,153	288,905	-	333,058	186,793	254,442	2,981	444,216
Facility rental	189,533	63,178	63,178	315,889	231,408	41,819	22,313	295,540
Depreciation	85,943	28,648	28,648	143,239	119,550	21,604	11,527	152,681
Stipends	103,745	-	-	103,745	188,097	-	-	188,097
Telephone	11,692	49,423	750	61,865	50,108	40,639	302	91,049
Meetings and food	36,432	4,390	2,959	43,781	235,745	402	10,412	246,559
Printing, postage and reproduction	35,233	8,498	-	43,731	48,451	12,377	-	60,828
Grants	-	-	-	-	1,000,000	-	-	1,000,000
Total other expenses	1,950,424	1,159,338	150,516	3,260,278	4,563,517	1,254,866	293,971	6,112,354
Subtotal before donated services and facilities	8,869,574	2,817,296	1,452,861	13,139,731	13,673,608	3,500,297	1,457,201	18,631,106
Donated Services and Facilities:								
Donated regional operations	470,675	-	-	470,675	781,526	-	-	781,526
Donated administrative and professional services	-	179,969	-	179,969	-	155,757	-	155,757
Donated facility usage	42,210	-	-	42,210	55,606	-	-	55,606
Total donated services and facilities	512,885	179,969	-	692,854	837,132	155,757	-	992,889
Total expenses	\$ 9,382,459	\$ 2,997,265	\$ 1,452,861	\$ 13,832,585	\$ 14,510,740	\$ 3,656,054	\$ 1,457,201	\$ 19,623,995

The accompanying notes are an integral part of these statements.

HEALTH LEADS, INC.

Notes to Financial Statements
August 31, 2019 and 2018

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES

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. We do this by removing barriers that keep people from identifying, accessing and choosing the resources everyone needs to be healthy.

Health Leads's 'Grow and Catalyze' (G&C) Strategy (see page 11) ended in 2018, giving us the opportunity to begin planning our new strategy, ("Building Community Health") throughout fiscal year 2019. Today, the circumstances into which each of us is born predict our opportunities and health outcomes. Our health care system was not designed to address the primary drivers of health, despite 80% of the modifiable factors impacting health - such as affordable housing, healthy food, childcare, neighborhood safety, living wages - being shaped by life outside of our doctors' offices. Our three primary impact areas are focusing on; 1) the caregiver role; 2) resource data serving the people who need it most and; 3) ensuring the health systems are sharing the decision-making power with communities most impacted.

To prepare for this transition, many changes took place throughout fiscal year 2019. Along with the new strategy, Health Leads developed a new vision, mission and values, while actively supporting and transitioning activities from G&C. Staffing was adjusted to reflect the new focus of work and the shift in revenue model. G&C activities included an advising team to provide services to individual health systems. As this was no longer the focus of the new strategy, a large employee reduction took place through two Reduction in Forces resulting in a 40% reduction of staff. Health Leads also adjusted the departments, reduced the number of programmatic initiatives and transitioned operations to become more project-based.

Throughout the significant changes occurring within Health Leads throughout fiscal year 2019, we had our largest annual raise of approximately \$4,000,000 in philanthropic donations and approximately \$1,500,000 in earned revenue. Other notable accomplishments in fiscal year 2019 included aligning funders to our new strategy and the NY Maternal Health initiative which reduced the Women, Infant and Children (WIC) enrollment gap by 44% among patients screened and supported in Health + Hospitals Clinics. This initiative informed the NY State WIC quality-assurance priorities based on the recommendations elevated by community health workers and women accessing WIC.

The new strategy is informed by more than 20+ years working closely with communities, community organizations, hospitals, clinics, and health systems to connect people to essential resources such as food and housing alongside medical care. Health Leads knows that health does not happen in clinics alone, and that 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, we are 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, 2019 and 2018

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

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 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 receivables and their estimate of amounts that may be uncollectible. As of August 31, 2019 and 2018, the allowance for doubtful accounts was approximately \$43,000 and \$60,000, respectively (see Note 3).

Equipment, 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 4), 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 page 9 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.

HEALTH LEADS, INC.

Notes to Financial Statements
August 31, 2019 and 2018

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

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

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.

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.

HEALTH LEADS, INC.

Notes to Financial Statements
August 31, 2019 and 2018

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

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 4). The value assigned to these services and facilities for the years ended August 31, 2019 and 2018, was \$692,854 and \$992,889, respectively, based on management's estimate of the fair value of services provided.

Subsequent Events

Subsequent events have been evaluated through January 10, 2020, 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, 2019 and 2018. Health Leads' information returns are subject to examination by the Federal and state jurisdictions.

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.

HEALTH LEADS, INC.

Notes to Financial Statements
August 31, 2019 and 2018

2. NET ASSETS CLASSIFICATION (Continued)

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

	<u>2019</u>	<u>2018</u>
Time restricted funds	<u>\$ 1,756,933</u>	<u>\$ -</u>
Specific purpose restricted funds:		
National capacity	-	3,588,978
Specific geographic regions	-	302,504
Total specific purpose restricted funds	-	<u>3,891,482</u>
Total net assets with donor restrictions	<u>\$ 1,756,933</u>	<u>\$ 3,891,482</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. During the year ended August 31, 2018, Health Leads released from restriction the remaining Grow and Catalyze fund which totaled \$9,628,843.

3. GRANTS AND PLEDGES RECEIVABLE

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

	<u>2019</u>	<u>2018</u>
Due in one year	\$ 1,712,500	\$ 4,794,360
Due in one to five years	350,000	25,000
	<u>2,062,500</u>	<u>4,819,360</u>
Less - allowance for doubtful accounts	(42,963)	(60,375)
	<u>2,019,537</u>	<u>4,758,085</u>
Less - current portion	<u>1,669,537</u>	<u>4,733,985</u>
Long-term portion	<u>\$ 350,000</u>	<u>\$ 25,000</u>

There was no discount on long-term pledges as of August 31, 2019 and 2018, as the amounts are immaterial to the financial statements as a whole.

Five donors' pledge balances represented approximately 90% of the total outstanding grants and pledges balance as of August 31, 2019. Two donors' pledge balances represented approximately 40% of the total outstanding grants and pledges balance as of August 31, 2018.

For the year ended August 31, 2019, four donors' contributions represented approximately 50% of the total operating support and revenues without donor restrictions. For the year ended August 31, 2018, two donors' contributions represented approximately 33% of the total operating support and revenues without donor restrictions.

HEALTH LEADS, INC.

Notes to Financial Statements
August 31, 2019 and 2018

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 \$179,969 and \$155,757 for the years ended August 31, 2019 and 2018, 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>2019</u>	<u>2018</u>
Regional operations:		
Advocates (volunteers)	\$ 470,675	\$ 781,526
Administrative and professional services	179,969	155,757
Facility usage	<u>42,210</u>	<u>55,606</u>
Total donated services and facilities	<u>\$ 692,854</u>	<u>\$ 992,889</u>

5. INVESTMENTS

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

	<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>
	<u>2018</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market mutual funds	\$ 3,664,679	\$ -	\$ -	\$ 3,664,679
Fixed income mutual funds	1,421,462	-	-	1,421,462
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>

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.

6. LINE OF CREDIT

Health Leads has a \$500,000 line of credit with up to \$417,740 available 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 7. Borrowings under the agreement are due on demand and interest is payable monthly at the bank's base lending rate (5.25% and 3.50% at August 31, 2019 and 2018, respectively), plus 1%. The line of credit is secured by all business assets of Health Leads. As of August 31, 2019 and 2018, Health Leads had no outstanding balance under this agreement and was in compliance with the covenants in the agreement.

HEALTH LEADS, INC.

Notes to Financial Statements
August 31, 2019 and 2018

7. LEASE AGREEMENTS

National Office

In August 2015, Health Leads entered into a lease agreement for 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, 2019 and 2018, deferred rent was \$170,501 and \$197,580, respectively, and is included in deferred rent and lease incentive in the accompanying statements of financial position. Amortization of the deferred rent totaled \$27,079 and \$17,238 for the years ended August 31, 2019 and 2018, 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. 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. At August 31, 2019 and 2018, the unamortized tenant improvement allowance was \$199,677 and \$255,401, 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 and \$55,727 for the years ended August 31, 2019 and 2018, 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 \$86,260 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.

Minimum Payments

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

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

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 \$277,505 and \$297,779 to the Plan during the years ended August 31, 2019 and 2018, respectively, which are included in fringe benefits and payroll taxes in the accompanying statements of functional expenses.

HEALTH LEADS, INC.

Notes to Financial Statements
August 31, 2019 and 2018

9. LIQUIDITY

Health Leads has a policy to structure its financial assets to be available as its obligations become due. As of August 31, 2019, Health Leads' current financial assets, including uncollected grants, pledges and accounts receivable totaling \$5,899,610, 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, 2019:

Cash and cash equivalents	\$ 2,891,898
Investments	<u>946,842</u>
	<u>3,838,740</u>
Amounts subject to collection:	
Current portion of grants and pledges receivable (see Note 3)	1,669,537
Accounts receivable	<u>391,333</u>
	<u>2,060,870</u>
Total current financial assets	<u>\$ 5,899,610</u>

Health Leads has liquid assets approximating five months of operating expenses at August 31, 2019.

10. RECLASSIFICATIONS

Certain amounts in the August 31, 2018 financial statements have been reclassified to conform to the August 31, 2019 presentation.