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One connection at a time.

FINANCIAL STATEMENTS
AUGUST 31, 2015 AND 2014

HEALTH LEADS, INC.

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August 31, 2015 and 2014

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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, 2015 and 2014, and the related statements of activities and 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, 2015 and 2014, 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.

Alexander, Brown, Fenning & Co., P.C.

Boston, Massachusetts
January 11, 2016

HEALTH LEADS, INC.

 Statements of Financial Position
 August 31, 2015 and 2014

Assets	2015			2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Current Assets:						
Cash and cash equivalents	\$ 5,061,279	\$ 6,728,199	\$ 11,789,478	\$ 2,437,667	\$ 779,342	\$ 3,217,009
Marketable securities	532,275	1,111,354	1,643,629	494,814	1,216,571	1,711,385
Current portion of grants and pledges receivable	407,952	9,178,389	9,586,341	378,657	9,960,376	10,339,033
Prepaid expenses	22,347	-	22,347	12,032	-	12,032
Total current assets	6,023,853	17,017,942	23,041,795	3,323,170	11,956,289	15,279,459
Grants and Pledges Receivable, net of current portion and discount	-	7,644,744	7,644,744	-	10,046,500	10,046,500
Equipment and Software	561,688	-	561,688	561,688	-	561,688
Less - accumulated depreciation	455,184	-	455,184	293,677	-	293,677
Net equipment and software	106,504	-	106,504	268,011	-	268,011
Total assets	\$ 6,130,357	\$ 24,662,686	\$ 30,793,043	\$ 3,591,181	\$ 22,002,789	\$ 25,593,970
Liabilities and Net Assets						
Current Liabilities:						
Accounts payable and accrued expenses	\$ 228,550	\$ -	\$ 228,550	\$ 42,602	\$ -	\$ 42,602
Accrued payroll and related	260,241	-	260,241	203,902	-	203,902
Deferred revenue	299,918	-	299,918	-	-	-
Deferred rent	28,329	-	28,329	-	-	-
Total current liabilities	817,038	-	817,038	246,504	-	246,504
Net Assets:						
Unrestricted:						
Operating	5,206,815	-	5,206,815	3,076,666	-	3,076,666
Equipment and software	106,504	-	106,504	268,011	-	268,011
Total unrestricted	5,313,319	-	5,313,319	3,344,677	-	3,344,677
Temporarily restricted	-	24,662,686	24,662,686	-	22,002,789	22,002,789
Total net assets	5,313,319	24,662,686	29,976,005	3,344,677	22,002,789	25,347,466
Total liabilities and net assets	\$ 6,130,357	\$ 24,662,686	\$ 30,793,043	\$ 3,591,181	\$ 22,002,789	\$ 25,593,970

The accompanying notes are an integral part of these statements.

HEALTH LEADS, INC.

Statements of Activities and Changes in Net Assets
For the Years Ended August 31, 2015 and 2014

	2015			2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Operating Support and Revenues:						
Grants	\$ 286,444	\$ 13,316,837	\$ 13,603,281	\$ 290,918	\$ 22,846,532	\$ 23,137,450
Program revenue	1,839,071	-	1,839,071	1,247,006	-	1,247,006
Donated services and facilities	1,665,154	-	1,665,154	1,875,307	-	1,875,307
Individual contributions	541,558	-	541,558	735,485	-	735,485
Investment income and other	72,000	-	72,000	81,142	-	81,142
Investment gains (losses) on marketable securities	(66,149)	-	(66,149)	31,894	-	31,894
Net assets released from restrictions:						
Satisfaction of Grow and Catalyze capital campaign restrictions	6,818,506	(6,818,506)	-	166,667	(166,667)	-
Satisfaction of other purpose restrictions	1,919,792	(1,919,792)	-	3,244,653	(3,244,653)	-
Satisfaction of Proof Fund capital campaign restrictions	500,310	(500,310)	-	3,780,335	(3,780,335)	-
Total operating support and revenues	<u>13,576,686</u>	<u>4,078,229</u>	<u>17,654,915</u>	<u>11,453,407</u>	<u>15,654,877</u>	<u>27,108,284</u>
Operating Expenses:						
Program operations	10,013,801	-	10,013,801	8,856,796	-	8,856,796
General and administrative	2,007,151	-	2,007,151	1,529,029	-	1,529,029
Development	1,005,424	-	1,005,424	743,577	-	743,577
Total operating expenses	<u>13,026,376</u>	<u>-</u>	<u>13,026,376</u>	<u>11,129,402</u>	<u>-</u>	<u>11,129,402</u>
Changes in net assets from operations	550,310	4,078,229	4,628,539	324,005	15,654,877	15,978,882
Non-Operating Activity:						
Net assets released from Grow and Catalyze capital campaign for expansion of reserves	1,418,332	(1,418,332)	-	692,544	(692,544)	-
Changes in net assets	1,968,642	2,659,897	4,628,539	1,016,549	14,962,333	15,978,882
Net Assets:						
Beginning of year	<u>3,344,677</u>	<u>22,002,789</u>	<u>25,347,466</u>	<u>2,328,128</u>	<u>7,040,456</u>	<u>9,368,584</u>
End of year	<u>\$ 5,313,319</u>	<u>\$ 24,662,686</u>	<u>\$ 29,976,005</u>	<u>\$ 3,344,677</u>	<u>\$ 22,002,789</u>	<u>\$ 25,347,466</u>

The accompanying notes are an integral part of these statements.

HEALTH LEADS, INC.Statements of Cash Flows
For the Years Ended August 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ 4,628,539	\$ 15,978,882
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	161,507	165,895
Donated stock	(149,772)	-
Investment (gains) losses on marketable securities	66,149	(31,894)
Changes in operating assets and liabilities:		
Funds held by others	-	31,266
Grants and pledges receivable	3,154,448	(15,174,922)
Prepaid expenses	(10,315)	1,148
Accounts payable and accrued expenses	185,948	9,322
Accrued payroll and related	56,339	34,629
Deferred revenue	299,918	-
Deferred rent	28,329	-
	<u>8,421,090</u>	<u>1,014,326</u>
Net cash provided by operating activities		
Cash Flows from Investing Activities:		
Purchase of equipment and software	-	(40,392)
Purchase of investments	(120,548)	-
Proceeds from sale of investments	271,927	496,730
	<u>151,379</u>	<u>456,338</u>
Net cash provided by investing activities		
Net Change in Cash and Cash Equivalents	8,572,469	1,470,664
Cash and Cash Equivalents:		
Beginning of year	<u>3,217,009</u>	<u>1,746,345</u>
End of year	<u>\$ 11,789,478</u>	<u>\$ 3,217,009</u>

The accompanying notes are an integral part of these statements.

HEALTH LEADS, INC.

 Statements of Functional Expenses
 For the Years Ended August 31, 2015 and 2014

	2015				2014			
	Program Operations	General and Administrative	Development	Total	Program Operations	General and Administrative	Development	Total
Personnel and Related Costs:								
Contracted staff and salaries	\$ 4,785,673	\$ 972,946	\$ 691,466	\$ 6,450,085	\$ 4,149,111	\$ 773,069	\$ 516,802	\$ 5,438,982
Fringe benefits and payroll taxes	1,046,045	212,665	151,140	1,409,850	884,205	164,746	110,134	1,159,085
Total personnel and related costs	<u>5,831,718</u>	<u>1,185,611</u>	<u>842,606</u>	<u>7,859,935</u>	<u>5,033,316</u>	<u>937,815</u>	<u>626,936</u>	<u>6,598,067</u>
Other Expenses:								
Professional fees	952,595	261,398	81,204	1,295,197	495,967	95,619	69,879	661,465
Staff, volunteer and board travel	559,688	43,055	14,689	617,432	448,014	73,449	6,000	527,463
Stipends	302,817	-	-	302,817	312,896	-	-	312,896
Meetings and food	209,880	27,596	3,744	241,220	181,891	22,401	508	204,800
Facility rental	100,042	86,142	42,875	229,059	112,958	75,414	23,517	211,889
Information systems and equipment	203,989	12,458	33	216,480	142,383	31,715	9,104	183,202
Depreciation	161,507	-	-	161,507	165,895	-	-	165,895
Telephone	74,365	50,456	4,541	129,362	68,646	53,372	2,471	124,489
Recruiting	101,486	18,633	-	120,119	109,953	-	-	109,953
Miscellaneous	34,307	41,122	10,717	86,146	24,101	22,366	5,112	51,579
Printing, postage and reproduction	31,730	6,097	4,831	42,658	39,977	10,210	50	50,237
Supplies	24,191	16,370	184	40,745	30,313	1,754	-	32,067
Insurance	117	15,376	-	15,493	-	11,787	-	11,787
Repairs and maintenance	1,640	1,412	-	3,052	5,094	3,212	-	8,306
Total other expenses	<u>2,758,354</u>	<u>580,115</u>	<u>162,818</u>	<u>3,501,287</u>	<u>2,138,088</u>	<u>401,299</u>	<u>116,641</u>	<u>2,656,028</u>
Subtotal before donated services and facilities	<u>8,590,072</u>	<u>1,765,726</u>	<u>1,005,424</u>	<u>11,361,222</u>	<u>7,171,404</u>	<u>1,339,114</u>	<u>743,577</u>	<u>9,254,095</u>
Donated Services and Facilities:								
Donated regional operations	1,291,827	-	-	1,291,827	1,543,647	-	-	1,543,647
Donated facility usage	131,902	-	-	131,902	141,745	-	-	141,745
Donated administrative and professional services	-	241,425	-	241,425	-	189,915	-	189,915
Total donated services and facilities	<u>1,423,729</u>	<u>241,425</u>	<u>-</u>	<u>1,665,154</u>	<u>1,685,392</u>	<u>189,915</u>	<u>-</u>	<u>1,875,307</u>
Total expenses	<u>\$ 10,013,801</u>	<u>\$ 2,007,151</u>	<u>\$ 1,005,424</u>	<u>\$ 13,026,376</u>	<u>\$ 8,856,796</u>	<u>\$ 1,529,029</u>	<u>\$ 743,577</u>	<u>\$ 11,129,402</u>

The accompanying notes are an integral part of these statements.

HEALTH LEADS, INC.

Notes to Financial Statements
August 31, 2015 and 2014

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 a healthcare system that addresses all patients' basic resource needs as a standard part of quality care. Health Leads' mission is to catalyze this 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.

Health Leads enables doctors and other healthcare providers to "prescribe" basic resources like food and heat just as they do medication and refer patients to Health Leads just as they do any other specialty. Health Leads recruits and trains college students to "fill" these prescriptions by working side-by-side with patients to connect them with the basic resources they need to be healthy. During the years ended August 31, 2015 and 2014, Health Leads mobilized nearly 1,000 college students per year who volunteered as Health Leads advocates and served 14,022 and 13,455 clients, respectively, representing 51,280 and 49,855 children and adults, respectively, in partner hospitals across the United States. Health Leads operates in more than 20 adult, pediatric and prenatal clinics and in community health centers in Boston, Providence, New York, Baltimore, Washington DC, California and Chicago (see Note 4).

The Proof Fund capital campaign funds are considered purpose restricted (see Note 2) in that they are to be used for costs of Health Leads' operations not otherwise covered by other operating revenue. The use of these funds began in fiscal year 2011 according to a specific formula in the capital campaign memorandum provided by the lead funder. The objectives of these funds were substantially met in fiscal year 2014.

During the year ended August 31, 2014, Health Leads launched a Grow and Catalyze capital campaign to raise \$33,000,000 to launch a "Grow and Catalyze" strategic plan, which will span 2015 – 2018. Goals of the strategic plan are:

- Partner with 2-5 Model Health Systems to create the proof points of system-wide integration of social needs
- Arm healthcare institutions with a variety of tools, training and knowledge to integrate resource connections
- Cultivate the ecosystem necessary to make resource connections the "new normal"

Health Leads expects that the new infusion of funds from the Grow and Catalyze capital campaign (see Note 2) will support the strategic and expansion objectives over the strategic plan period.

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.

SIGNIFICANT ACCOUNTING POLICIES

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

HEALTH LEADS, INC.

Notes to Financial Statements
August 31, 2015 and 2014

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Revenue Recognition

Health Leads records revenues from unrestricted grants and contributions when received or unconditionally committed. Health Leads reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated gifts. When a donor stipulated time restriction ends or purpose restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities and changes in net assets 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 and changes in net assets. 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 are distributed to that program or supporting service, while other expenses are allocated based upon management's estimate of the percentage attributable to each program or supporting service.

Cash and Cash Equivalents

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

Allowance for Doubtful Accounts

The allowance for doubtful grants and pledges is recorded based on management's analysis of specific grants and pledges receivable and their estimate of amounts that may be uncollectible. There was no allowance as of August 31, 2015 and 2014.

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 five-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.

HEALTH LEADS, INC.

Notes to Financial Statements
August 31, 2015 and 2014

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Marketable Securities

Marketable securities primarily include mutual funds which are reported at fair value (see below).

Gains or losses on investments are recognized as realized or based on market value changes during the period. These amounts are reported in the accompanying statements of activities and changes in net assets as increases or decreases in unrestricted net assets unless their use is temporarily restricted by explicit donor stipulations or by law.

Investment income is recorded as unrestricted revenue unless its use is temporarily or permanently restricted by explicit donor restrictions.

Donated Goods and Services

Health Leads receives donated goods and services in support of various aspects of its programs (see Note 4). The value assigned to these services for the years ended August 31, 2015 and 2014, was \$1,665,154 and \$1,875,307, respectively, based on management's estimate of the fair value of services provided.

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, 2015 and 2014

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

Subsequent events have been evaluated through January 11, 2016, 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, 2015 and 2014. Health Leads' information returns are subject to examination by the Federal and state jurisdictions and generally remain open for the most recent three years.

2. NET ASSETS CLASSIFICATION

Unrestricted net assets include amounts which bear no external restrictions and are currently available for operations. Health Leads has classified its unrestricted net assets 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.

Temporarily restricted net assets include contributions and grants which are designated by donors for specific purposes or time periods. These contributions are recorded as temporarily restricted net assets until they are expended for their designated purposes or the time period lapses.

Temporarily restricted net assets are restricted as follows as of August 31:

	<u>2015</u>	<u>2014</u>
Specific purpose restricted funds:		
National capacity	\$ 153,610	\$ 203,338
New York site	146,875	62,500
Boston site	120,834	-
California site	100,000	467,500
Chicago site	<u>25,000</u>	<u>-</u>
Total specific purpose restricted funds	546,319	733,338
Grow and Catalyze capital campaign (see Note 1)	23,796,338	20,449,112
Proof Fund capital campaign (see Note 1)	<u>320,029</u>	<u>820,339</u>
Total temporarily restricted net assets	<u>\$ 24,662,686</u>	<u>\$ 22,002,789</u>

HEALTH LEADS, INC.

Notes to Financial Statements
August 31, 2015 and 2014

2. NET ASSETS CLASSIFICATION (Continued)

The Proof Fund capital campaign was designed to increase resource connections, prepare for rapid future growth, and prove the Family Help Desk's return on investment. Funds raised during this capital campaign were restricted to cover operating expenses plus 5% each year through fiscal year 2014. The remainder of the funds will be used for operating costs during the Grow and Catalyze Campaign.

The Grow and Catalyze Campaign is 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 are 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 at August 31, 2015 and 2014, are recorded at their net present value using a 1% discount rate against the long-term portion of the grants and pledges. Grants and pledges are expected to be received as follows as of August 31:

	<u>2015</u>	<u>2014</u>
Due in one year	\$ 9,586,341	\$ 10,339,033
Due in one to five years	<u>7,783,450</u>	<u>10,216,667</u>
	17,369,791	20,555,700
Less - discount	<u>138,706</u>	<u>170,167</u>
	17,231,085	20,385,533
Less - current portion	<u>9,586,341</u>	<u>10,339,033</u>
Long-term portion	<u>\$ 7,644,744</u>	<u>\$ 10,046,500</u>

Three donors' pledge balances represent approximately 64% of the total outstanding grants and pledges balance as of August 31, 2015. Two donors' pledge balances represented approximately 69% of the total outstanding grants and pledges balance as of August 31, 2014. For the year ended August 31, 2015, one donors' contribution represented approximately 56% of the total unrestricted operating support and revenues.

4. DONATED SERVICES AND FACILITIES

In addition to the in-kind services of Health Leads Advocates (see Note 1), Health Leads also receives donated rent, legal services and facilities to support its programs and administration. In some cases, Health Leads' Board members are employees of professional service firms providing these donated services. These firms provided legal services valued at \$228,568 and \$186,037 for the years ended August 31, 2015 and 2014, respectively, which are included in donated administrative and professional services in the accompanying statements of functional expenses.

HEALTH LEADS, INC.

Notes to Financial Statements
August 31, 2015 and 2014

4. 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>2015</u>	<u>2014</u>
Regional operations:		
Advocates (see Note 1)	\$ 1,149,783	\$ 1,394,772
Clinical mentors	81,044	89,875
Faculty advisors	<u>61,000</u>	<u>59,000</u>
Subtotal regional operations	1,291,827	1,543,647
Facility usage	131,902	141,745
Administrative and professional services	<u>241,425</u>	<u>189,915</u>
Total donated services and facilities	<u>\$ 1,665,154</u>	<u>\$ 1,875,307</u>

During fiscal year 2015, Health Leads experienced a decline in donated personnel mainly due to a decrease in the amount of volunteer hours. Innovation in Health Leads' technology has reduced the amount of advocate time needed to staff its partner hospital sites.

5. CONCENTRATIONS

Health Leads maintains its cash balances in various banks in Massachusetts. One bank insures deposits up to the limits of the Federal Deposit Insurance Corporation (FDIC), while the second bank is fully insured through the Depositors Insurance Fund (DIF). At certain times during the year, some cash balances exceeded the insured amounts. 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.

6. MARKETABLE SECURITIES

Marketable securities consist of a domestic equities mutual fund reported at fair value of \$1,643,629 and \$1,711,385 as of August 31, 2015 and 2014, respectively. Marketable securities are reported at fair value using Level 1 inputs (see Note 1). Marketable securities are not insured and are subject to market fluctuations.

Net investment gains (losses) consists of the following for the years ended August 31:

	<u>2015</u>	<u>2014</u>
Realized gains (losses)	\$ (9,456)	\$ (25,988)
Unrealized gains (losses)	<u>(56,693)</u>	<u>57,882</u>
	<u>\$ (66,149)</u>	<u>\$ 31,894</u>

HEALTH LEADS, INC.

Notes to Financial Statements
August 31, 2015 and 2014

7. LINE OF CREDIT

Health Leads has available up to \$500,000 under a revolving line of credit agreement, which expires in February 2016. Borrowings under the agreement are due on demand and interest is payable monthly at the bank's base lending rate (3.25% at August 31, 2015 and 2014), plus 1%. The line of credit is secured by all business assets of Health Leads. As of August 31, 2015 and 2014, Health Leads had no outstanding balance under this agreement and was in compliance with the covenants in the agreement.

8. LEASE AGREEMENTS

National Office

Health Leads entered into a lease agreement for office space in Boston, Massachusetts, which expired in November 2015. The agreement required monthly payments of \$16,495 for the remainder of the term, plus its proportionate share of real estate taxes and other expenses.

Per the terms of this lease agreement, Health Leads was required to deliver to the landlord security of \$100,000 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. Subsequent to year end, this letter of credit was terminated with the termination of the lease agreement.

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, 2015, deferred rent was \$28,329 and is included in the accompanying statement of financial position. The lease agreement also included a tenant improvement allowance up to \$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 will be completed during the year ended August 31, 2016. This landlord incentive is required to be treated as a liability and will be amortized over the lease term as a reduction in the rent expense. The tenant improvement allowance had not been paid as of August 31, 2015, and therefore is not reflected in the accompanying statement of financial position.

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 expected under the Boston lease agreements for the next five years are as follows for the years ending August 31:

2016	\$ 143,783
2017	\$ 348,862
2018	\$ 357,943
2019	\$ 367,024
2020	\$ 376,105
2021 and thereafter	\$ 1,012,532

HEALTH LEADS, INC.

Notes to Financial Statements
August 31, 2015 and 2014

9. RETIREMENT PLAN

Health Leads has a qualified salary reduction Safe Harbor IRC Section 401(k) retirement plan (the Plan) for all eligible employees, as defined in the Plan. Under the Plan, employees may contribute a percentage of their annual salaries, not to exceed the limits set by the IRC. Health Leads will make 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 \$155,416 and \$146,211 to the Plan during the years ended August 31, 2015 and 2014, respectively, which is included in fringe benefits and payroll taxes in the accompanying statements of functional expenses.