



**VERMONT INFORMATION
TECHNOLOGY LEADERS, INC.**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

JUNE 30, 2016 AND 2015

**JMM & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS**

**VERMONT INFORMATION
TECHNOLOGY LEADERS, INC.**

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VT License #92-0000171

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Vermont Information Technology Leaders, Inc.
Burlington, Vermont

Report on the Financial Statements

We have audited the accompanying financial statements of Vermont Information Technology Leaders, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, the statement of functional expenses for the year ended June 30, 2016, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair representation 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 risk 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 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.

JMM & ASSOCIATES ■ CERTIFIED PUBLIC ACCOUNTANTS

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vermont Information Technology Leaders, Inc. as of June 30, 2016 and 2015, 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of revenues and expenses on page 12 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2017 on our consideration of Vermont Information Technology Leaders, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Vermont Information Technology Leaders, Inc.'s internal control over financial reporting and compliance.

Jmm & Associates

March 30, 2017

VERMONT INFORMATION TECHNOLOGY LEADERS, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2016 AND 2015

ASSETS

	<u>2016</u>	<u>2015</u> <u>(As restated)</u>
CURRENT ASSETS		
Cash	\$ 410,787	\$ 1,093,907
Accounts and grants receivable	1,624,895	1,407,595
Prepaid expenses	<u>219,277</u>	<u>65,994</u>
TOTAL CURRENT ASSETS	<u>2,254,959</u>	<u>2,567,496</u>
PROPERTY AND EQUIPMENT		
Furniture and equipment	196,540	196,540
Leasehold improvements	<u>121,071</u>	<u>121,071</u>
	317,611	317,611
Less accumulated depreciation	<u>(229,666)</u>	<u>(190,049)</u>
TOTAL PROPERTY AND EQUIPMENT	<u>87,945</u>	<u>127,562</u>
OTHER ASSET		
Security deposits	<u>12,531</u>	<u>13,181</u>
TOTAL ASSETS	<u>\$ 2,355,435</u>	<u>\$ 2,708,239</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 391,487	\$ 1,003,922
Accrued salaries and related taxes	189,639	234,202
Accrued vacation	166,123	208,792
Deferred revenue	107,558	12,681
Refundable advances	<u>328,847</u>	<u>485,547</u>
TOTAL CURRENT LIABILITIES	<u>1,183,654</u>	<u>1,945,144</u>
NET ASSETS		
Unrestricted	<u>1,171,781</u>	<u>763,095</u>
TOTAL NET ASSETS	<u>1,171,781</u>	<u>763,095</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,355,435</u>	<u>\$ 2,708,239</u>

See accompanying notes.

VERMONT INFORMATION TECHNOLOGY LEADERS, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u> <u>(As restated)</u>
CHANGE IN UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Federal and state grants	\$ 5,632,267	\$ 6,993,040
Program service fees	1,478,391	363,453
Conference revenue	62,668	59,970
Interest income	885	1,145
TOTAL SUPPORT AND REVENUE	<u>7,174,211</u>	<u>7,417,608</u>
EXPENSES		
Program services	<u>4,919,041</u>	<u>6,087,343</u>
Support services:		
General and administrative	<u>1,846,484</u>	<u>1,204,688</u>
Subtotal - support services	<u>1,846,484</u>	<u>1,204,688</u>
TOTAL EXPENSES	<u>6,765,525</u>	<u>7,292,031</u>
CHANGE IN UNRESTRICTED NET ASSETS	408,686	125,577
BEGINNING UNRESTRICTED NET ASSETS	<u>763,095</u>	<u>637,518</u>
ENDING UNRESTRICTED NET ASSETS	<u>\$ 1,171,781</u>	<u>\$ 763,095</u>

See accompanying notes.

VERMONT INFORMATION TECHNOLOGY LEADERS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR 2015)

	Program Services	General and Administrative	Total 2016	Total 2015
Salaries and wages	\$ 1,834,132	\$ 758,284	\$ 2,592,416	\$ 3,044,241
Payroll taxes and employee benefits	929,654	359,481	1,289,135	915,177
Subtotal - personnel	2,763,786	1,117,765	3,881,551	3,959,418
Data services	1,011,586	-	1,011,586	1,621,903
Information technology	295,146	21,111	316,257	178,481
Data and network services	289,282	5,843	295,125	127,852
Consultants	242,586	20,327	262,913	332,541
Occupancy	-	227,800	227,800	241,028
Legal and accounting	82,087	130,833	212,920	72,372
Education and outreach	96,048	32,268	128,316	311,802
Insurance	75,509	12,091	87,600	95,314
Professional development	4,900	71,635	76,535	21,662
Conferences, meetings and travel	37,917	31,922	69,839	108,810
Telecommunications	-	62,810	62,810	71,508
Office expenses	17,293	40,328	57,621	82,226
Depreciation	-	39,617	39,617	34,618
Legislative support	-	28,850	28,850	30,651
Interest and other charges	2,901	3,284	6,185	1,845
TOTAL EXPENSES	\$ 4,919,041	\$ 1,846,484	\$ 6,765,525	\$ 7,292,031

See accompanying notes.

VERMONT INFORMATION TECHNOLOGY LEADERS, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u> (As restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from grants	\$ 5,353,144	\$ 7,097,237
Cash received from fees and services	1,541,059	423,423
Interest received	885	1,145
Cash paid for personnel	(3,968,783)	(3,830,254)
Cash paid for goods and services	(3,608,152)	(2,620,907)
Cash paid for interest	(1,273)	(1,845)
	<u>(683,120)</u>	<u>1,068,799</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	-	(84,115)
	<u>-</u>	<u>(84,115)</u>
NET CASH USED BY INVESTING ACTIVITIES		
INCREASE (DECREASE) IN CASH	(683,120)	984,684
BEGINNING CASH	1,093,907	109,223
ENDING CASH	<u>\$ 410,787</u>	<u>\$ 1,093,907</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Change in net assets	\$ 408,686	\$ 125,577
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	39,617	34,618
(Increase) decrease in:		
Accounts and grants receivable	(217,300)	424,889
Prepaid expenses	(153,283)	(17,021)
Security deposits	650	(7,281)
Increase (decrease) in:		
Accounts payable	(612,435)	699,544
Accrued salaries and related taxes	(44,563)	83,086
Accrued vacation	(42,669)	46,079
Deferred revenue	94,877	3,017
Refundable advances	(156,700)	(323,709)
	<u>(1,091,806)</u>	<u>943,222</u>
Total adjustments		
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (683,120)</u>	<u>\$ 1,068,799</u>

See accompanying notes.

VERMONT INFORMATION TECHNOLOGY LEADERS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

1) SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Operations

Vermont Information Technology Leaders, Inc. (VITL) is a 501(c)(3) nonprofit organization which was incorporated in the State of Vermont in 2005. VITL assists Vermont health care providers with adopting and using health information technology to improve the quality of care delivery, to enhance patient safety and to reduce the cost of care for all Vermont citizens. VITL is legislatively designated in 18 V.S.A. §9352 to operate the exclusive health information exchange (HIE) for Vermont. VITL is governed by a Board of Directors that includes representation from health plans, hospitals, physicians, other health care providers, state government, employers, and consumers. For more information, please visit www.vitl.net.

Financial statement presentation

VITL is required to report its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. VITL did not have any temporarily or permanently restricted net assets as of June 30, 2016 or 2015.

Cash and cash equivalents

For purposes of the Statements of Cash Flows, VITL considers all unrestricted, highly-liquid investments with an initial maturity of three months or less to be cash equivalents. Amounts on deposit in financial institutions are insured by the FDIC to a maximum of \$250,000 per depositor, per insured bank. From time to time throughout the year, VITL maintained cash on deposit in excess of the FDIC limit, but has not previously experienced a loss on cash deposits in excess of the FDIC limit. Amounts on deposit in excess of the FDIC limit were approximately \$303,000 and \$885,000 at June 30, 2016 and 2015, respectively.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Accounts and grants receivable

Accounts and grants receivable consist of amounts due from various government agencies and not-for-profit organizations. Due to the nature of the amounts, no allowance is considered necessary.

Income taxes

VITL is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code, and is exempt from federal income taxes on income related to its exempt purpose as a public charity pursuant to Section 509(a)(1). In addition, contributions to VITL qualify for the charitable contribution deduction under Section 170(b)(1)(A)(vi). The Organization believes that it has appropriate support for any tax positions taken and, as such, does not have any uncertain tax positions that are material to the financial statements.

VERMONT INFORMATION TECHNOLOGY LEADERS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

1) SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional allocation of expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The 2015 information in the Statement of Functional Expenses is summarized with comparative information and does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

Property and equipment

Property and equipment are carried at cost when acquired by purchase and at estimated fair market value when contributed. VITL's policy is to capitalize all acquisitions over \$5,000 having a useful life of more than one year. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Depreciation expense was \$39,617 and \$34,618 for the years ended June 30, 2016 and 2015, respectively.

Grant and contract support

VITL recognizes grant and contract funds on an exchange basis. As such, revenues are booked as the grant is earned.

2) ACCOUNTS AND GRANTS RECEIVABLE

Accounts and grants receivable consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
SIM grant	\$ 734,959	\$ 846,105
HIE grant	598,775	92,977
APD grant	267,814	284,767
CHA fees	17,180	-
PatientPing fees	6,167	-
Services performed	-	148,255
Services provided, not yet invoiced	-	35,491
	<u>\$ 1,624,895</u>	<u>\$ 1,407,595</u>

VERMONT INFORMATION TECHNOLOGY LEADERS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

2) ACCOUNTS AND GRANTS RECEIVABLE (continued)

Due to their current nature, no allowance for uncollectible accounts and grants receivable is considered necessary. Bad debt expense related to grants receivable was \$0 for the years ended June 30, 2016 and 2015. At June 30, 2016 and 2015, respectively, 99% and 80% of accounts and grants receivable were due under three and two government grants, respectively.

3) LINE OF CREDIT

VITL has a \$500,000 line of credit agreement through TD Bank. The line bears interest at the Wall Street Journal Prime Rate plus 1% (4.5% and 4.25% at June 30, 2016 and 2015, respectively). The line of credit is due on demand, expired in February 2017 and has been extended until February 28, 2018 with the same terms and conditions. There were no amounts outstanding under this agreement as of June 30, 2016 and 2015.

4) REFUNDABLE ADVANCES

Refundable advances consist of grant advances from the State of Vermont and University of Vermont Medical Center and are due within twelve months.

5) PENSION PLAN

VITL has established a "Safe Harbor 401(k) Plan" open to all full-time employees who are age 21 or older and have at least one year of service. Under the plan, the Organization makes a "safe harbor" contribution (a one-to-one match up to 3% of employee deferrals and a one-to-two match for deferrals between 3% and 5%) for the benefit of each participating employee, as well as an annual discretionary "profit-sharing contribution." Employer contributions to the plan were \$219,187 and \$197,602 for the years ended June 30, 2016 and 2015, respectively.

6) CONCENTRATION OF REVENUE

For the years ended June 30, 2016 and 2015, respectively, approximately 82% and 94% of VITL's total revenue were earned under three government grants.

7) OPERATING LEASE

During 2016, VITL rented office space in Montpelier and Burlington under various office leases. The Montpelier office lease ended and the space was vacated in 2017. Rent expense (including incidental charges) was approximately \$195,000 and \$205,000 for the years ended June 30, 2016 and 2015, respectively. Future minimum lease payments are as follows for the years ending June 30:

VERMONT INFORMATION TECHNOLOGY LEADERS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

7) OPERATING LEASE (continued)

2017	\$ 186,000
2018	189,000
2019	<u>195,000</u>
	<u>\$ 570,000</u>

8) CONTINGENCIES

Financial awards from federal, state and local governmental entities in the form of grants are subject to special audit. Such audits could result in claims against the Organization for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this date.

9) PRIOR PERIOD RESTATEMENT

The financial statements for the year ended June 30, 2015 have been restated to correct the amount of Federal and state grant revenue. The net effect of the restatement was to reduce federal and state grant income, change in unrestricted net assets, and ending unrestricted net assets by \$198,264, and to increase refundable advances by the same amount. The restatement had no effect of the financial statements for the year ended June 30, 2016.

10) SUBSEQUENT EVENTS

As discussed in Note 3, TD Bank agreed to extend VITL's line of credit agreement until February 28, 2018.

Vermont Information Technology Leaders, Inc. has evaluated events and transactions for potential recognition or disclosure through March 30, 2017, the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

VERMONT INFORMATION TECHNOLOGY LEADERS, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2016

Federal Grantor Pass-through Grantor Program Title	Passthrough #	CFDA Number	Federal Expenditures
U.S. Department of Health and Human Services			
<i>Passed through the Department of Vermont Health Access:</i>			
ACA - State Innovation Models	03410-1275-14	93.624	\$ 706,259
Medical Assistance Program	03410-256-16	93.778	<u>1,655,611</u>
Total U.S. Department of Health and Human Services			<u>2,361,870</u>
TOTAL FEDERAL AWARDS EXPENDED			<u><u>\$ 2,361,870</u></u>

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1) BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the schedule) includes the federal grant activity of Vermont Information Technology Leaders, Inc. under programs of the federal government for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Vermont Information Technology Leaders, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of Vermont Information Technology Leaders, Inc.

NOTE 2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3) INDIRECT COST RATES

Vermont Information Technology Leaders, Inc. has elected not to use the 10% de minimus indirect cost rate as allowed under the Uniform Guidance.

VERMONT INFORMATION TECHNOLOGY LEADERS, INC.

SCHEDULE OF REVENUES AND EXPENSES

FOR THE YEAR ENDED JUNE 30, 2016

	DVHA & OCV	SIM - Grant	IAPD	Other	Unallowable	Indirect	Total
REVENUE							
Federal and state grants	\$ 3,010,201	\$ 1,388,568	\$ 1,233,498	\$ -	\$ -	\$ -	\$ 5,632,267
Program service fees	1,197,771	-	-	280,620	-	-	1,478,391
Conference revenue	62,668	-	-	-	-	-	62,668
Interest income	-	-	-	885	-	-	885
TOTAL REVENUE	4,270,640	1,388,568	1,233,498	281,505	-	-	7,174,211
EXPENSES							
Salaries and wages	1,093,524	368,536	329,399	37,048	56,858	707,051	2,592,416
Payroll taxes and employee benefits	555,972	187,372	167,474	18,836	-	359,481	1,289,135
State of Vermont analysis variance	-	-	-	-	(31,634)	31,634	-
Subtotal - personnel	1,649,496	555,908	496,873	55,884	25,224	1,098,166	3,881,551
Data services	951,286	16,500	43,800	-	-	-	1,011,586
Information technology	197,835	15,750	32,452	49,110	503	20,607	316,257
Data and network services	146,276	10,611	23,980	104,490	3,925	5,843	295,125
Consultants	54,462	34,375	153,714	35	650	19,677	262,913
Occupancy	-	-	-	-	16,077	211,723	227,800
Legal and accounting	67,627	252	15,245	1,763	13,881	114,152	212,920
Education and outreach	82,000	-	11,123	1,200	15,348	18,645	128,316
Insurance	75,509	-	-	-	-	12,091	87,600
Professional development	3,500	-	1,400	-	2,416	69,219	76,535
Conferences, meetings and travel	27,665	6,979	3,322	-	4,182	27,691	69,839
Telecommunications	-	-	-	-	-	62,810	62,810
Office expenses	17,293	-	-	-	16,829	23,499	57,621
Depreciation	-	-	-	-	-	39,617	39,617
Legislative support	2,901	-	-	-	28,850	-	28,850
Interest and other charges	-	-	-	-	3,079	205	6,185
Reallocation of CHAC PM PM expenses	(106,736)	106,736	-	-	-	-	-
Allocation of indirect expenses	1,121,717	219,475	267,982	69,884	44,887	(1,723,945)	-
TOTAL EXPENSES	4,290,831	966,586	1,049,891	282,366	175,851	-	6,765,525
NET INCOME (LOSS)	\$ (20,191)	\$ 421,982	\$ 183,607	\$ (861)	\$ (175,851)	\$ -	\$ 408,686