

FINANCIAL STATEMENTS
INDEPENDENT AUDITOR'S REPORT
VERMONT INFORMATION TECHNOLOGY LEADERS, INC.
JUNE 30, 2018 AND 2017

**VERMONT INFORMATION TECHNOLOGY LEADERS, INC.
JUNE 30, 2018 AND 2017**

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Vermont Information Technology Leaders, Inc. ("VITL"), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 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 Vermont Information Technology Leaders, Inc. as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Other Auditors

The financial statements of Vermont Information Technology Leaders, Inc., as of and for the year ended June 30, 2017, were audited by other auditors, whose report dated July 24, 2018 expressed an unmodified opinion on those statements.

Gallagher, Flynn & Company, LLP

December 7, 2018

VERMONT INFORMATION TECHNOLOGY LEADERS, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30,

A S S E T S

	<u>2018</u>	<u>2017</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,579,370	\$ 883,850
Accounts receivable	149,919	1,052,872
Unbilled accounts receivable	1,106,963	-
Prepaid expenses	<u>135,357</u>	<u>241,922</u>
Total current assets	2,971,609	<u>2,178,644</u>
 PROPERTY AND EQUIPMENT, net	 107,920	 49,540
 OTHER ASSETS	 <u>12,781</u>	 <u>11,281</u>
	 <u>\$ 3,092,310</u>	 <u>\$ 2,239,465</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 201,492	\$ 355,745
Accrued expenses	166,724	176,225
Deferred revenue	12,910	12,910
Due to State of Vermont	<u>131,187</u>	<u>131,187</u>
Total current liabilities	512,313	676,067
 NET ASSETS - ALL UNRESTRICTED	 <u>2,579,997</u>	 <u>1,563,398</u>
	 <u>\$ 3,092,310</u>	 <u>\$ 2,239,465</u>

The accompanying notes are an integral part of these statements.

VERMONT INFORMATION TECHNOLOGY LEADERS, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30,

	<u>2018</u>	<u>2017</u>
REVENUES		
Federal and state grants and contracts	\$ 5,517,498	\$ 5,731,661
Program service fees	999,116	1,194,640
Conference fees	-	208,218
Other	1,383	43
Total revenues and support	<u>6,517,997</u>	<u>7,134,562</u>
EXPENSES		
Program	3,816,475	4,842,279
Supporting - general and administrative	<u>1,684,923</u>	<u>2,065,178</u>
Total expenses	<u>5,501,398</u>	<u>6,907,457</u>
INCREASE IN NET ASSETS	1,016,599	227,105
NET ASSETS, beginning of year	<u>1,563,398</u>	<u>1,336,293</u>
NET ASSETS, end of year	<u>\$ 2,579,997</u>	<u>\$ 1,563,398</u>

The accompanying notes are an integral part of these statements.

VERMONT INFORMATION TECHNOLOGY LEADERS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2018

WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2017

	<u>Program Expenses</u>	<u>General and Administrative</u>	<u>Total 2018 Expenses</u>	<u>Total 2017 Expenses</u>
Salaries and wages	\$ 1,378,881	\$ 772,928	\$ 2,151,809	\$ 2,588,565
Payroll taxes and employee benefits	<u>658,827</u>	<u>369,303</u>	<u>1,028,130</u>	<u>1,274,580</u>
Total personnel	2,037,708	1,142,231	3,179,939	3,863,145
Conferences, meetings, and travel	8,370	6,209	14,579	66,902
Consultants	5,485	75,908	81,393	197,953
Data and network services	301,555	44,929	346,484	598,170
Data services	1,030,451	-	1,030,451	1,153,885
Education and outreach	-	10,939	10,939	102,843
Information technology	111,589	51,060	162,649	178,951
Insurance	82,788	17,762	100,550	97,530
Legal and accounting	-	147,658	147,658	184,207
Legislative support	-	21,272	21,272	21,330
Occupancy	157,917	66,651	224,568	216,805
Office expenses	4,413	28,125	32,538	65,298
Professional development	400	46,152	46,552	57,749
Telecommunications	<u>46,292</u>	<u>15,329</u>	<u>61,621</u>	<u>64,285</u>
	3,786,968	1,674,225	5,461,193	6,869,053
Depreciation	<u>29,507</u>	<u>10,698</u>	<u>40,205</u>	<u>38,404</u>
Total	<u>\$ 3,816,475</u>	<u>\$ 1,684,923</u>	<u>\$ 5,501,398</u>	<u>\$ 6,907,457</u>

The accompanying notes are an integral part of these statements.

VERMONT INFORMATION TECHNOLOGY LEADERS, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30,

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from grants and contracts	\$ 5,298,281	\$ 6,175,888
Cash received from fees and services	1,005,809	1,402,858
Interest received	1,383	43
Cash paid for personnel	(3,180,926)	(4,042,682)
Cash paid for good and services	(2,330,442)	(3,061,208)
Cash paid for interest	-	(1,836)
Net cash provided by operating activities	<u>794,105</u>	<u>473,063</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(98,585)</u>	-
Net cash used in financing activities	<u>(98,585)</u>	-
Net increase in cash and cash equivalents	695,520	473,063
 CASH AND CASH EQUIVALENTS, beginning of year	<u>883,850</u>	<u>410,787</u>
 CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 1,579,370</u></u>	<u><u>\$ 883,850</u></u>
 RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Increase in net assets	\$ 1,016,599	\$ 227,105
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	40,205	38,404
Changes in assets and liabilities:		
Billed and unbilled accounts receivable	(204,010)	572,023
Prepaid expenses	106,565	(22,645)
Other assets	(1,500)	1,250
Accounts payable	(154,253)	(35,741)
Accrued expenses	(9,501)	(179,537)
Deferred revenues	-	(94,648)
Due to State of Vermont	-	(33,148)
Net cash provided by operating activities	<u><u>\$ 794,105</u></u>	<u><u>\$ 473,063</u></u>

The accompanying notes are an integral part of these statements.

VERMONT INFORMATION TECHNOLOGY LEADERS, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES

Operations:

Vermont Information Technology Leaders, Inc. (“VITL”) is a not-for-profit organization incorporated in the State of Vermont in 2005. VITL’s mission is to assist 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 Vermont health information exchange (VHIE), which is a secure, statewide data network which gives health care providers in Vermont the ability to electronically exchange and access patient data. VITL collects and manages patient data such as demographics, laboratory results, discharge summaries, radiology reports and medication histories, from multiple sources including hospitals, primary and specialty care, Federally Qualified Health Centers, home health, long term care, designated agencies and commercial labs. Funding of operations is derived through a variety of contracts with the State of Vermont and healthcare-related organizations. VITL is governed by a Board of Directors that includes representatives of the business community; comprised of health care consumers, Vermont hospitals, Vermont-licensed clinicians, and health insurers licensed to offer plans in Vermont, as well as individuals familiar with health information technology.

Accounting policies:

A summary of VITL’s significant accounting policies applied in the preparation of the accompanying financial statements follows:

1. Basis of presentation

The financial statement presentation follows the requirements of Accounting Standards Codification (“ASC”) Topic 958, *Not-For-Profit Entities*. VITL reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

The financial statements include certain prior year summarized comparative information in the statement of functional expenses. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with VITL’s financial statements for the year ended June 30, 2017, from which the summarized information was derived.

2. Revenue recognition

Federal and state grant and contract revenues

VITL previously had been awarded several federal cost reimbursement grant award agreements passed through the State of Vermont (“State”), that expired June 30, 2017. Revenue from related grants was recognized as the related expenses were incurred.

VERMONT INFORMATION TECHNOLOGY LEADERS, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

2. Revenue recognition (continued)

Federal and state grant and contract revenues (continued)

Commencing July 1, 2017, the State revised its agreements with VITL by entering into various contracts that require the delivery of specified services that are provided to the State on a monthly basis. Revenue under these contracts is recognized in the period which significant conditions of each service deliverable are satisfied, generally as the related services are provided to the State.

Program service fees

Program service fees are recorded upon delivery of the related services.

Conference fees

Conference revenues are recognized in the period in which the related conference occurs.

Deferred revenues

Revenues related to prepayments and advance billings under enforceable contracts are deferred until the period in which such amounts are earned.

3. Cash and cash equivalents

For purposes of the statements of cash flows, VITL considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents. Cash and cash equivalents includes an interest-bearing money market account with a balance of \$122,848 and \$32,207 at June 30, 2018 and 2017, respectively.

4. Receivables

Unbilled accounts receivable consists of amounts for which the revenue recognition criteria has been met, but for which invoicing has not occurred. Amounts earned under contracts with the State of Vermont are billed monthly following customer acceptance of deliverables.

Billed and unbilled accounts receivable are stated at the amount VITL expects to collect. If the financial condition of VITL's customers or grantors were to deteriorate, adversely affecting their ability to make payments, or if acceptance of deliverables by the customer was unlikely, allowances would be required. No allowance was required at June 30, 2018 and 2017.

VERMONT INFORMATION TECHNOLOGY LEADERS, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

5. Property and equipment

Property and equipment is recorded at cost. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line method. Leasehold improvements are amortized over the lives of the respective leases or the services lives of the improvements, whichever is shorter.

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows. An impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. There were no changes in net assets related to impairment during the years ended June 30, 2018 and 2017.

6. Functional expenses and allocation of shared costs

Expenses are charged to program and supporting services based on direct expenses incurred. Common costs, including occupancy and fringe benefits, are allocated to program and supporting services based upon related utilization.

7. Use of estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

8. Income taxes

VITL is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. Accordingly, VITL has not provided for income taxes in these financial statements.

Each year, management considers whether any material tax position VITL has taken is more likely than not to be sustained upon examination by the applicable taxing authority. Management believes that any positions VITL has taken are supported by substantial authority and, therefore, do not need to be measured or disclosed in these financial statements. Tax returns for years subsequent to June 30, 2014, are subject to examination by tax authorities.

VERMONT INFORMATION TECHNOLOGY LEADERS, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

9. Recently issued accounting pronouncements

VITL is currently evaluating the impact on its financial statements of adopting the following recently issued accounting pronouncements.

Not-for-profit reporting standards

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*. The most significant elements of the ASU will include reduction of net asset classes from three to two classes (unrestricted and donor restricted) and enhanced disclosures related to investments, financial liquidity, and expense allocation. The ASU is effective for years beginning after December 15, 2017.

Revenue recognition

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which provides a robust framework for addressing revenue recognition issues and, upon its effective date, replaces almost all existing revenue recognition guidance, including industry-specific guidance, in current U.S. generally accepted accounting principles. The revenue recognition policies of almost all entities will be affected by the new guidance in the ASU. The degree to which an entity's revenue recognition policies will change upon the adoption of the ASU, and the effects the changes will have on the entity's financial statements will vary depending on the nature and terms of the entity's revenue-generating transactions. In addition, entities in some industries likely will be affected by the new guidance in the ASU more than entities in other industries. Given the broad applicability and potentially significant ramifications of the guidance in the ASU, the FASB provided significantly delayed effective dates for its guidance. This ASU is effective for years beginning after December 15, 2018.

Contributions received and contributions made

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-18, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies the guidance presented in Topic 958 for evaluating whether a transaction is a reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU is effective for resource recipients for years beginning after December 15, 2018 and for resource providers for years beginning after December 15, 2019.

VERMONT INFORMATION TECHNOLOGY LEADERS, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

9. Recently issued accounting pronouncements

Leases

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02 Leases (Topic 842). This ASU was issued in three parts: (a) Section A, Leases: Amendments to the FASB Accounting Standards Codification, (b) Section B, Conforming Amendments Related to Leases: Amendments to the FASB Accounting Standards Codification, and (c) Section C, Background Information and Basis for Conclusions. While both lessees and lessors are affected by the new guidance which includes many changes, the effects on lessees are much more significant. The most significant change for lessees is the requirement to recognize right-of-use assets and lease liabilities for all leases not considered short-term leases, affecting leases which were previously accounted for as operating leases. This ASU is effective for years beginning after December 15, 2019, and must be implemented using a modified retrospective approach.

10. Evaluation of subsequent events

In preparing these financial statements, VITL has evaluated events and transactions for potential recognition or disclosure through December 7, 2018, the date the financial statements were available to be issued.

B) CONCENTRATIONS OF CREDIT AND OTHER BUSINESS RISKS

Cash

VITL maintains domestic bank account balances which, at times, may exceed federally insured limits. VITL has not experienced any losses with these accounts. Management believes VITL is not exposed to any significant credit risk on domestic cash and cash equivalent balances.

Significant Customers

VITL derives a substantial portion of its revenue from grants and contracts with the State of Vermont, as reported separately on the accompanying statements of activities. Amounts receivable from the State of Vermont, including unbilled receivables, approximated \$1,073,000 and \$854,000 at June 30, 2018 and 2017, respectively.

VITL also has a significant program service fees contract with an accountable care organization representing 13% of total revenues in 2018 and 12% in 2017, of which approximately \$150,000 and \$68,000 was included in accounts receivable at June 30, 2018 and 2017, respectively.

VERMONT INFORMATION TECHNOLOGY LEADERS, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

B) CONCENTRATIONS OF CREDIT AND OTHER BUSINESS RISKS (continued)

Significant Vendors

VITL licenses software and outsources data hosting and related services from one significant vendor. Total expenses related to agreements with this vendor approximated \$1,030,000 in 2018 and \$1,043,000 in 2017. Amounts due to this vendor included in accounts payable approximated \$82,000 and \$121,000 at June 30, 2018 and 2017, respectively.

C) PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30:

	<u>2018</u>	<u>2017</u>
Furniture and fixtures	\$ 236,451	\$ 137,866
Leasehold improvements	<u>121,071</u>	<u>121,071</u>
	357,522	258,937
Less accumulated depreciation and amortization	<u>(249,602)</u>	<u>(209,397)</u>
	<u>\$ 107,920</u>	<u>\$ 49,540</u>

D) LINE OF CREDIT

VITL has a \$500,000 revolving line of credit agreement with TD Bank, N.A., payable on demand and expiring on February 28, 2019. Interest is payable at The Wall Street Journal prime rate (5.00% at June 30, 2018) plus 1%. There was no balance outstanding at June 30, 2018 and 2017. The line of credit is secured by VITL's cash and cash equivalent accounts.

E) OPERATING LEASE

VITL leases office facilities in Burlington, Vermont under an agreement that expires June 30, 2019. Monthly base rent approximates \$13,000.

Total rent expense approximated \$196,000 in 2018 and \$186,000 in 2017, including common area maintenance and other operating costs. Future minimum lease payments as of June 30, 2018 consist of approximately \$165,000 for the year ending June 30, 2019.

VERMONT INFORMATION TECHNOLOGY LEADERS, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

F) RETIREMENT PLAN

VITL sponsors a Safe Harbor 401(k) retirement plan (“the Plan”) that covers substantially all of its employees. Under the Plan, VITL matches employee contributions up to 3% of eligible compensation, in addition to 50% of employee contributions between 3% and 5%. Additionally, VITL also offered a discretionary profit-sharing contribution through July 1, 2018, at which time the Plan was discontinued. VITL contributions to the Plan charged to earnings approximated \$149,000 in 2018 and \$192,300 in 2017.

G) DUE TO STATE OF VERMONT

During 2018, the State of Vermont conducted a review of grant-related expenses incurred by VITL and submitted for reimbursement through June 30, 2017. As a result of that review, a refund of \$131,187 is required to be repaid by VITL in 2018. The balance due to the State of Vermont was charged as a reduction to grant revenues in 2017 and is reported as a payable in the accompanying statements of financial position as of June 30, 2018 and 2017.

H) RELATED PARTY TRANSACTIONS

A member of VITL’s board of directors serves as an officer of an organization that provides a significant portion of VITL’s program service fee revenues. Total related revenues were approximately \$836,000 in 2018 and \$835,000 in 2017. Amounts receivable from this organization, including unbilled receivables, was approximately \$150,000 and \$67,500 at June 30, 2018 and 2017, respectively.

Another member of VITL’s board of directors serves as an officer of VITL’s former health insurance provider. Total related expenses approximated \$185,000 in 2018 and \$466,000 in 2017, respectively. There were no amounts due to the vendor included in accounts payable at June 30, 2018 and 2017.