

FINANCIAL STATEMENTS
INDEPENDENT AUDITOR'S REPORT
VERMONT INFORMATION TECHNOLOGY LEADERS, INC.
JUNE 30, 2020 AND 2019

VERMONT INFORMATION TECHNOLOGY LEADERS, INC.

JUNE 30, 2020 AND 2019

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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., which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows 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 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, 2020 and 2019, and the changes in its net assets, functional expenses, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Gallagher, Flynn & Company, LLP

South Burlington, Vermont
December 8, 2020

VERMONT INFORMATION TECHNOLOGY LEADERS, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30,

A S S E T S

	<u>2020</u>	<u>2019</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,558,797	\$ 2,486,940
Accounts receivable	426,629	732,297
Unbilled accounts receivable	290,551	505,564
Prepaid expenses	241,434	145,939
Total current assets	<u>4,517,411</u>	<u>3,870,740</u>
 PROPERTY AND EQUIPMENT, net	 184,343	 141,948
 OTHER ASSETS	 <u>12,781</u>	 <u>12,781</u>
	 <u>\$ 4,714,535</u>	 <u>\$ 4,025,469</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 136,236	\$ 335,268
Accrued expenses	156,390	157,512
Deferred revenue	183,660	12,910
Total current liabilities	<u>476,286</u>	<u>505,690</u>
 NET ASSETS - ALL WITHOUT DONOR RESTRICTIONS	 <u>4,238,249</u>	 <u>3,519,779</u>
	 <u>\$ 4,714,535</u>	 <u>\$ 4,025,469</u>

The accompanying notes are an integral part of these statements.

VERMONT INFORMATION TECHNOLOGY LEADERS, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30,

	<u>2020</u>	<u>2019</u>
REVENUES		
State of Vermont contracts	\$ 5,858,394	\$ 5,044,088
Program service fees	980,721	1,001,546
Other	<u>28,602</u>	<u>17,638</u>
Total revenues and support	<u>6,867,717</u>	<u>6,063,272</u>
EXPENSES		
Program	4,950,691	3,673,971
Supporting - general and administrative	<u>1,198,556</u>	<u>1,449,519</u>
Total expenses	<u>6,149,247</u>	<u>5,123,490</u>
INCREASE IN NET ASSETS	718,470	939,782
NET ASSETS, beginning of year	<u>3,519,779</u>	<u>2,579,997</u>
NET ASSETS, end of year	<u><u>\$ 4,238,249</u></u>	<u><u>\$ 3,519,779</u></u>

The accompanying notes are an integral part of these statements.

VERMONT INFORMATION TECHNOLOGY LEADERS, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30,

	2020			2019		
	Program Expenses	General and Administrative	Total Expenses	Program Expenses	General and Administrative	Total Expenses
Salaries and wages	\$ 1,445,065	\$ 619,073	\$ 2,064,138	\$ 1,332,396	\$ 559,829	\$ 1,892,225
Payroll taxes and employee benefits	528,674	226,487	755,161	572,270	240,449	812,719
Total personnel	1,973,739	845,560	2,819,299	1,904,666	800,278	2,704,944
Conferences, meetings, and travel	3,907	9,109	13,016	2,309	4,266	6,575
Consultants	211,145	14,815	225,960	2,225	11,240	13,465
Data and network services	203,873	53,696	257,569	145,084	99,202	244,286
Data services: VHIE	974,384	-	974,384	1,004,201	-	1,004,201
Education and outreach	32,190	4,166	36,356	-	5,928	5,928
Information technology: software	1,182,508	16,621	1,199,129	277,419	66,657	344,076
Insurance	68,104	15,522	83,626	85,268	17,016	102,284
Legal and accounting	110,754	85,868	196,622	45,053	249,198	294,251
Legislative support	-	21,000	21,000	-	21,420	21,420
Occupancy	95,142	48,496	143,638	128,354	75,872	204,226
Office expenses	5,831	24,808	30,639	2,856	25,062	27,918
Professional development	28	23,794	23,822	185	34,443	34,628
Telecommunications	38,546	14,314	52,860	39,025	20,315	59,340
	4,900,151	1,177,769	6,077,920	3,636,645	1,430,897	5,067,542
Depreciation and amortization	50,540	20,787	71,327	37,326	18,622	55,948
Total	<u>\$ 4,950,691</u>	<u>\$ 1,198,556</u>	<u>\$ 6,149,247</u>	<u>\$ 3,673,971</u>	<u>\$ 1,449,519</u>	<u>\$ 5,123,490</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>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from contracts	\$ 6,603,897	\$ 4,845,320
Cash received from program service fees	926,649	1,088,148
Other cash received	28,602	17,638
Cash paid for personnel	(2,797,075)	(2,737,542)
Cash paid for good and services	<u>(3,576,494)</u>	<u>(2,216,018)</u>
Net cash provided by operating activities	<u>1,185,579</u>	<u>997,546</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(113,722)</u>	<u>(89,976)</u>
Net cash used in financing activities	<u>(113,722)</u>	<u>(89,976)</u>
Net increase in cash and cash equivalents	1,071,857	907,570
CASH AND CASH EQUIVALENTS, beginning of year	<u>2,486,940</u>	<u>1,579,370</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 3,558,797</u>	<u>\$ 2,486,940</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Increase in net assets	\$ 718,470	\$ 939,782
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	71,327	55,948
Changes in assets and liabilities:		
Billed and unbilled accounts receivable	520,681	19,021
Prepaid expenses	(95,495)	(10,582)
Accounts payable	(199,032)	133,776
Accrued expenses	(1,122)	(9,212)
Deferred revenue	170,750	-
Due to State of Vermont	-	(131,187)
Net cash provided by operating activities	<u>\$ 1,185,579</u>	<u>\$ 997,546</u>

The accompanying notes are an integral part of these statements.

VERMONT INFORMATION TECHNOLOGY LEADERS, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

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. 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. Funding of operations is derived through a variety of contracts with the State of Vermont and healthcare-related organizations.

Accounting policies:

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

1. Basis of presentation

VITL's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), which require VITL to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of VITL. These net assets may be used at the discretion of management and VITL's board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of VITL or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

VERMONT INFORMATION TECHNOLOGY LEADERS, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

2. Revenue recognition

VITL enters into various contracts that require the delivery of specified services to the State of Vermont and other parties. Revenues under these contracts are recognized in the period which the significant conditions of each service deliverable are satisfied, generally as the related services are provided to the customer. 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 approximately \$2,158,000 and \$2,030,000 at June 30, 2020 and 2019, respectively.

4. Receivables

Accounts receivable represent amounts billed to customers in accordance with the provisions of related contracts. Amounts under contracts with the State of Vermont are substantially billed monthly, following customer acceptance of deliverables. Unbilled accounts receivable consists of amounts for which the revenue recognition criteria has been met, but for which invoicing has not occurred.

Billed and unbilled accounts receivable are stated at the amount VITL expects to collect. If the financial condition of VITL's customers 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, 2020 or 2019.

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.

VERMONT INFORMATION TECHNOLOGY LEADERS, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

5. **Property and equipment (continued)**

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 charges during the years ended June 30, 2020 and 2019.

6. **Functional expenses and allocation of shared costs**

Expenses are charged to program and supporting services based on direct expenses incurred and allocation of common expenses. Common costs are allocated based upon related utilization. Specifically, salaries and wages are allocated to each functional expense category based on actual time charged to each category by employees. Employee benefits and payroll taxes are allocated consistent with related salaries and wages. Insurance, occupancy, telecommunications and depreciation are allocated based upon relative employee headcount. Substantially all other expenses are directly identifiable to a specific function and are therefore charged directly to each functional expense category.

7. **Use of estimates**

In preparing financial statements in conformity with GAAP, 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, 2016, are subject to examination by tax authorities.

VERMONT INFORMATION TECHNOLOGY LEADERS, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

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.

Revenue recognition

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 GAAP. 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. On June 3, 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606)*, which provides for an optional one-year deferral for adopting the guidance in Topic 606. VITL elected the option to defer the adoption of this guidance until the fiscal year ending June 30, 2021.

Leases

In February 2016, the FASB issued 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, 2021 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 8, 2020, the date the financial statements were available to be issued.

VERMONT INFORMATION TECHNOLOGY LEADERS, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

B) AVAILABILITY AND LIQUIDITY

The following reflects VITL's financial assets that are estimated to be available to meet general expenditure needs within one year as of June 30:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 3,558,797	\$ 2,486,940
Accounts receivable	426,629	732,297
Unbilled accounts receivable	290,551	505,564
	<u>\$ 4,275,977</u>	<u>\$ 3,724,801</u>

As part of its liquidity management process, VITL structures its financial assets to be available as general and program expenditures, liabilities, and other obligations become due. As of June 30, 2020, VITL has cash and cash equivalents available to fund operating needs for approximately 260 days. All of VITL's outstanding receivables as of June 30, 2020 were subsequently collected as of the date of this report. Additionally, VITL has a \$500,000 line of credit available to meet cash flow needs (Note E).

C) 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 contracts with the State of Vermont, as reported separately on the accompanying statements of activities. As of June 30, 2020, VITL operates under one contract with the State that expires on December 31, 2020 and is renewable annually by mutual agreement for three one-year periods. Amounts receivable from the State of Vermont, including unbilled receivables, approximated \$566,000 and \$1,141,000 at June 30, 2020 and 2019, respectively.

VITL also has a significant "program service fees" contract expiring December 31, 2020 with an accountable care organization (a related party, see Note H), representing 12% of total revenues in 2020 and 14% in 2019, of which approximately \$142,000 and \$68,000 was included in accounts receivable at June 30, 2020 and 2019, respectively.

VERMONT INFORMATION TECHNOLOGY LEADERS, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

C) 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 \$974,000 in 2020 and \$1,004,000 in 2019. Amounts due to this vendor included in accounts payable approximated \$77,000 and \$170,000 at June 30, 2020 and 2019, respectively.

D) PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30:

	<u>2020</u>	<u>2019</u>
Furniture and fixtures	\$ 339,522	\$ 225,800
Leasehold improvements	<u>98,185</u>	<u>98,185</u>
	437,707	323,985
Less accumulated depreciation and amortization	<u>(253,364)</u>	<u>(182,037)</u>
	<u>\$ 184,343</u>	<u>\$ 141,948</u>

E) 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, 2021. Interest is payable at *The Wall Street Journal* prime rate (3.25% at June 30, 2020) plus 1%. There was no balance outstanding at June 30, 2020 or 2019. The line of credit is secured by VITL's cash and cash equivalent accounts.

F) OPERATING LEASE

VITL leases office facilities in Burlington, Vermont under an agreement that expires February 2022. The lease currently requires monthly base rent of approximately \$8,000, subject to an annual 3% increase. Total rent expense approximated \$122,000 in 2020 and \$172,000 in 2019, including common area maintenance and other operating costs. Future minimum lease payments as of June 30, 2020 consist of approximately \$97,000 and \$66,000 for the years ending June 30, 2021 and 2022, respectively.

VERMONT INFORMATION TECHNOLOGY LEADERS, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

G) RETIREMENT PLAN

VITL sponsors a Safe Harbor 401(k) retirement 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%. VITL's contributions to the plan charged to operations approximated \$56,000 in 2020 and \$54,000 in 2019.

H) RELATED PARTY TRANSACTIONS

A member of VITL's board of directors serves as a key employee of an organization that provides a significant portion of VITL's program service fee revenues, as described in Note C. Revenues from this organization were approximately \$812,000 in 2020 and \$834,000 in 2019. Amounts receivable from this organization, including unbilled receivables, approximated \$142,000 and \$68,000 at June 30, 2020 and 2019, respectively.

Additionally, two members of VITL's board of directors serve as key employees of hospital organizations that VITL receives program service revenues from. Revenues from these organizations were approximately \$95,000 in 2020 and 2019. At June 30, 2020 and 2019 no amounts were receivable from either organization.

I) RISKS AND UNCERTAINTIES - CORONAVIRUS PANDEMIC

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and the financial markets of many countries, including the geographical area in which VITL operates. While it is unknown how long these conditions will last and what the complete financial effect will be, during the year ending June 30, 2020, VITL did experience a negative impact on revenue, as Vermont health care organizations focused on mitigating the pandemic. This caused numerous projects to be postponed or cancelled. VITL pivoted to support the State of Vermont in its pandemic response, for which VITL expects to be paid during the year ending June 30, 2021. To offset the decline in revenue during the year ending June 30, 2020, VITL reduced costs by postponing certain technical projects and delayed filling open staff positions. VITL's customers have continued to make scheduled payments and VITL continues to meet its cash flow needs. VITL's primary customer is the State of Vermont which minimizes risk of non-collection of accounts receivable. Management does not currently expect any significant reduction in future revenues or cash flows as a result of the pandemic, though the significant concentration of business makes it possible that VITL is vulnerable to the risk of a near-term impact.