



**VERMONT INFORMATION
TECHNOLOGY LEADERS, INC.**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

JUNE 30, 2015 AND 2014

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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, 2015 and 2014, 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, 2015, 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.

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, 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.

Uncertainty Regarding Revenue Recognition

As discussed in Note 8 to the financial statements, Vermont Information Technology Leaders, Inc. undertook a comprehensive review of its cost allocation methodology for the year ended June 30, 2015, and has recognized revenue in the accompanying financial statements in accordance with the results of that review. However, the methodology has not been approved by the State of Vermont Department of Vermont Health Access (DVHA). While the outcome of DVHA's review of the cost allocation methodology is not certain, management believes any changes to the methodology would not have a material impact on the accompanying financial statements. Our opinion is not modified with respect to this matter.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, 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 January 7, 2016 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

January 7, 2016

VERMONT INFORMATION TECHNOLOGY LEADERS, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2015 AND 2014

ASSETS

	<u>2015</u>	<u>2014</u>
CURRENT ASSETS		
Cash	\$ 1,093,907	\$ 109,223
Accounts and grants receivable	1,407,595	1,832,484
Prepaid expenses	<u>65,994</u>	<u>48,973</u>
TOTAL CURRENT ASSETS	<u>2,567,496</u>	<u>1,990,680</u>
PROPERTY AND EQUIPMENT		
Furniture and equipment	196,540	155,905
Leasehold improvements	<u>121,071</u>	<u>77,590</u>
	317,611	233,495
Less accumulated depreciation	<u>(190,049)</u>	<u>(155,431)</u>
TOTAL PROPERTY AND EQUIPMENT	<u>127,562</u>	<u>78,064</u>
OTHER ASSETS		
Security deposits	<u>13,181</u>	<u>5,900</u>
TOTAL ASSETS	<u>\$ 2,708,239</u>	<u>\$ 2,074,644</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 1,003,922	\$ 304,377
Accrued salaries and related taxes	234,202	151,116
Accrued vacation	208,792	162,713
Deferred revenue	12,681	9,664
Refundable advances	<u>287,283</u>	<u>809,256</u>
TOTAL CURRENT LIABILITIES	<u>1,746,880</u>	<u>1,437,126</u>
NET ASSETS		
Unrestricted	<u>961,359</u>	<u>637,518</u>
TOTAL NET ASSETS	<u>961,359</u>	<u>637,518</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,708,239</u>	<u>\$ 2,074,644</u>

See accompanying notes.

VERMONT INFORMATION TECHNOLOGY LEADERS, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
CHANGE IN UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Federal and state grants	\$ 7,191,304	\$ 6,521,243
Program service fees	363,453	70,616
Conference revenue	59,970	31,710
Interest income	1,145	571
	7,615,872	6,624,140
TOTAL SUPPORT AND REVENUE		
EXPENSES		
Program services	6,087,343	5,982,585
Support services:		
General and administrative	1,172,192	926,417
Unallowable expenses	32,496	5,058
Subtotal - support services	1,204,688	931,475
TOTAL EXPENSES	7,292,031	6,914,060
CHANGE IN UNRESTRICTED NET ASSETS	323,841	(289,920)
BEGINNING UNRESTRICTED NET ASSETS	637,518	927,438
ENDING UNRESTRICTED NET ASSETS	\$ 961,359	\$ 637,518

See accompanying notes.

VERMONT INFORMATION TECHNOLOGY LEADERS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2015
(WITH COMPARATIVE TOTALS FOR 2014)

	Program Services	General and Administrative	Unallowable	Total 2015	Total 2014
Salaries and wages	\$ 2,772,721	\$ 271,520	\$ -	\$ 3,044,241	\$ 2,834,386
Payroll taxes and employee benefits	833,721	81,456	-	915,177	824,768
Subtotal - personnel	3,606,442	352,976	-	3,959,418	3,659,154
Data services	1,621,903	-	-	1,621,903	943,848
Consultants	213,820	118,721	-	332,541	773,091
Education and outreach	242,478	69,324	-	311,802	146,559
Occupancy	-	241,028	-	241,028	144,935
Information technology	177,083	1,398	-	178,481	192,316
Data and network services	43,161	84,691	-	127,852	376,159
Conferences, meetings and travel	61,392	47,418	-	108,810	160,820
Insurance	81,132	14,182	-	95,314	94,366
Office expenses	16,107	66,119	-	82,226	99,968
Legal and accounting	20,200	52,172	-	72,372	140,761
Telecommunications	199	71,309	-	71,508	107,380
Depreciation	-	34,618	-	34,618	28,096
Legislative support and unallowable expenses	-	-	30,651	30,651	-
Professional development	3,426	18,236	-	21,662	46,607
Interest	-	-	1,845	1,845	-
TOTAL EXPENSES	\$ 6,087,343	\$ 1,172,192	\$ 32,496	\$ 7,292,031	\$ 6,914,060

See accompanying notes.

VERMONT INFORMATION TECHNOLOGY LEADERS, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from grants	\$ 7,097,237	\$ 6,285,636
Cash received from fees and services	423,423	37,027
Interest received	1,145	571
Cash paid for personnel	(3,830,254)	(3,548,605)
Cash paid for goods and services	(2,620,907)	(3,398,799)
Cash paid for interest	(1,845)	-
	<u>1,068,799</u>	<u>(624,170)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	(84,115)	(54,349)
	<u>(84,115)</u>	<u>(54,349)</u>
NET CASH USED BY INVESTING ACTIVITIES		
INCREASE (DECREASE) IN CASH	984,684	(678,519)
BEGINNING CASH	<u>109,223</u>	<u>787,742</u>
ENDING CASH	<u>\$ 1,093,907</u>	<u>\$ 109,223</u>
 RECONCILIATION OF CHANGE IN NET ASSETS TO		
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Change in net assets	<u>\$ 323,841</u>	<u>\$ (289,920)</u>
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	34,618	28,096
(Increase) decrease in:		
Accounts and grants receivable	424,889	(379,276)
Prepaid expenses	(17,021)	(15,781)
Security deposits	(7,281)	(1,200)
Increase (decrease) in:		
Accounts payable	699,544	(145,558)
Accrued salaries and related taxes	83,086	61,991
Accrued vacation	46,079	39,108
Deferred revenue	3,017	3,105
Refundable advances	(521,973)	75,265
	<u>744,958</u>	<u>(334,250)</u>
Total adjustments		
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 1,068,799</u>	<u>\$ (624,170)</u>

See accompanying notes.

VERMONT INFORMATION TECHNOLOGY LEADERS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

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, 2015 or 2014.

Reclassifications

Certain amounts in the 2014 financial information have been reclassified to provide an improved comparison to the 2015 financial statements.

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 \$885,000 and \$0 at June 30, 2015 and 2014, 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.

VERMONT INFORMATION TECHNOLOGY LEADERS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

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

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. VITL's information returns (Form 990) for the years ended June 30, 2014, 2013 and 2012 are subject to examination by taxing authorities, generally for a period of three years from the date filed.

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 2014 information in the Statement of Functional Expenses is summarized 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, 2014, 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 \$34,618 and \$28,096 for the years ended June 30, 2015 and 2014, 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.

VERMONT INFORMATION TECHNOLOGY LEADERS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

2) ACCOUNTS AND GRANTS RECEIVABLE

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

	<u>2015</u>	<u>2014</u>
SIM grant	\$ 846,105	\$ 788,171
Services performed	148,255	73,698
HIE grant	92,977	974,485
APD grant	284,767	-
Services provided, not yet invoiced	35,491	-
RHITEC grant	-	2,173
REC matching grant	-	(6,043)
	<u>\$ 1,407,595</u>	<u>\$ 1,832,484</u>

Due to their current nature, no allowance for uncollectible grants receivable is considered necessary. Bad debt expense related to grants receivable was \$0 for the years ended June 30, 2015 and 2014. At June 30, 2015 and 2014, respectively, 80% and 96% of accounts and grants receivable were due under two government grants.

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% (4.25% at June 30, 2015 and 2014). The line of credit is due on demand, expired in September 2015 and has been extended until February 29, 2016 with the same terms and conditions. There were no amounts outstanding under this agreement as of June 30, 2015 and 2014.

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 \$197,602 and \$118,752 for the years ended June 30, 2015 and 2014, respectively.

VERMONT INFORMATION TECHNOLOGY LEADERS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

6) CONCENTRATION OF REVENUE

For the years ended June 30, 2015 and 2014, respectively, approximately 94% and 90% of VITL's total revenue were earned under three and two government grants, respectively.

7) OPERATING LEASE

VITL rents office space in Montpelier and Burlington under various office leases. Rent expense (including incidental charges) was approximately \$205,000 and \$123,000 for the years ended June 30, 2015 and 2014, respectively. Future minimum lease payments are as follows for the years ending June 30:

2016	\$ 177,000
2017	183,000
2018	189,000
2019	<u>195,000</u>
	<u>\$ 744,000</u>

8) UNCERTAINTY REGARDING REVENUE RECOGNITION

Vermont Information Technology Leaders, Inc. undertook a comprehensive review of its cost allocation methodology for the year ended June 30, 2015, and has recognized revenue in the accompanying financial statements in accordance with the results of that review. However, the methodology has not been approved by the State of Vermont Department of Vermont Health Access (DVHA). While the outcome of DVHA's review of the cost allocation methodology is not certain, management believes any changes to the methodology would not have a material impact on the accompanying financial statements.

9) SUBSEQUENT EVENTS

As discussed in Note 3, TD Bank agreed to extend VITL's line of credit agreement until February 29, 2016.

Vermont Information Technology Leaders, Inc. has evaluated events and transactions for potential recognition or disclosure through January 7, 2016, 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, 2015

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	\$ 1,985,508
Medical Assistance Program	03410-256-15	93.778	<u>2,499,612</u>
Total U.S. Department of Health and Human Services			<u>4,485,120</u>
TOTAL FEDERAL AWARDS EXPENDED			<u><u>\$ 4,485,120</u></u>

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1) BASIS OF PRESENTATION

This schedule of expenditures of federal awards includes the federal grant activity of Vermont Information Technology Leaders, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations". Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.