FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

VERMONT INFORMATION TECHNOLOGY LEADERS, INC.

JUNE 30, 2021

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JUNE 30, 2021

CONTENTS

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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 Vermont Information Technology Leaders, Inc., which comprise the statement of financial position as of June 30, 2021, 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vermont Information Technology Leaders, Inc. as of June 30, 2021, and the changes in its net assets, functional expenses, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Gallagher, Flynn & Company, LLP

South Burlington, Vermont
November 23, 2021

VERMONT INFORMATION TECHNOLOGY LEADERS, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2021

A S S E T S

CURRENT ASSETS		
Cash and cash equivalents	$	4,471,854
Accounts receivable		117,002
Unbilled accounts receivable		1,570,635
Prepaid expenses		255,759
Deferred contract costs		244,912
Total current assets		6,660,162
PROPERTY AND EQUIPMENT, net		133,604
OTHER ASSETS		12,781
	$	6,806,547

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	$	464,240
Accrued expenses		517,866
Accrued loss provisions on contracts		315,003
Deferred revenue		536,816
Total current liabilities		1,833,925
NET ASSETS - ALL WITHOUT DONOR RESTRICTIONS		4,972,622
	$	6,806,547

The accompanying notes are an integral part of these statements.

VERMONT INFORMATION TECHNOLOGY LEADERS, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2021

REVENUES	
State of Vermont contracts	$ 7,617,440
Program service fees	1,070,185
Other	7,355
Total revenues	8,694,980
EXPENSES	
Program	5,801,011
Supporting - general and administrative	1,844,593
Loss provisions on contracts in progress	315,003
Total expenses	7,960,607
INCREASE IN NET ASSETS	734,373
NET ASSETS, beginning of year	4,238,249
NET ASSETS, end of year	$ 4,972,622

The accompanying notes are an integral part of these statements.

VERMONT INFORMATION TECHNOLOGY LEADERS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2021

	Program	Supporting - General and Administrative	Total Expenses
Salaries and wages	$ 1,528,290	$ 840,314	$ 2,368,604
Payroll taxes and employee benefits	579,526	318,646	898,172
Total personnel	2,107,816	1,158,960	3,266,776
Education and outreach	6,758	36,004	42,762
Insurance	59,752	17,654	77,406
Network expenses	272,552	105,231	377,783
Occupancy	96,978	50,577	147,555
Other	21,797	12,169	33,966
Outside consultants and professional services	1,066,210	283,354	1,349,564
Software	2,345,761	29,812	2,375,573
Supplies	1,649	3,011	4,660
Telecommunications	38,580	16,336	54,916
Training and professional development	7,832	71,419	79,251
	6,025,685	1,784,527	7,810,212
Depreciation and amortization	20,238	60,066	80,304
	6,045,923	1,844,593	7,890,516
Less: Deferred contract costs	(244,912)	-	(244,912)
Total	$ 5,801,011	$ 1,844,593	$ 7,645,604

The accompanying notes are an integral part of these statements.

VERMONT INFORMATION TECHNOLOGY LEADERS, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2021

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from State of Vermont contracts	$ 7,007,776
Cash received from program service fees	1,063,050
Other cash received	7,354
Cash paid for personnel	(3,070,459)
Cash paid for good and services	(4,065,099)
Net cash provided by operating activities	942,622
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of property and equipment	(29,565)
Net cash used in investing activities	(29,565)
Net increase in cash and cash equivalents	913,057
CASH AND CASH EQUIVALENTS, beginning of year	3,558,797
CASH AND CASH EQUIVALENTS, end of year	$ 4,471,854
RECONCILIATION OF INCREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Increase in net assets	$ 734,373
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation and amortization	80,304
Changes in assets and liabilities:	
Billed and unbilled accounts receivable	(970,457)
Prepaid expenses	(14,325)
Deferred contract costs	(244,912)
Accounts payable	328,004
Accrued expenses	361,476
Accrued loss provisions on contracts	315,003
Deferred revenue	353,156
Net cash provided by operating activities	$ 942,622

The accompanying notes are an integral part of these statements.

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 securely aggregate, standardize, and share the data needed to improve the effectiveness of healthcare for Vermonters. VITL is legislatively designated in Title 18 of the Vermont Statutes Annotated Section 9352 to operate the exclusive Vermont health information exchange (VHIE), which is a secure, statewide data network owned by the State of Vermont that gives healthcare 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 and comprises healthcare 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. <u>Basis of presentation</u>

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.

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

2. Revenue recognition and receivables

Effective July 1, 2020, VITL adopted new revenue recognition guidance that provides a single framework in which revenue is required to be recognized to depict the transfer of goods or services to customers in amounts that reflect the consideration to which a company expects to be entitled in exchange for those goods or services. The adoption of this guidance did not result in a material impact to the financial statements.

Revenues are recognized when control of the promised products (e.g., data, reports, access to software or systems) or services are transferred to customers, in an amount that reflects the consideration expected to be received in exchange for those products or services. Control transfers when products are delivered to customers or services are provided to customers because the customer has legal title, a present obligation to pay, and the risks and rewards of ownership. The amount of consideration expected to be received and revenue recognized is generally either a fixed amount for each product or service as identified in the contract or readily estimable based on the completion of milestones and operating targets of the contract.

Accounts receivable represent amounts billed to customers in accordance with the provisions of related contracts. Unbilled accounts receivable consist 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, 2021.

Deferred revenue represents amounts received from customers for products and services that have not yet been delivered or completed.

Payment terms vary by the type of customer and the products or services offered. The term between invoicing and when payment is due is not significant.

VITL has two primary categories of revenue: services delivered to customers over time, and products or services delivered to customers at a point in time. Contracts with customers often include promises to transfer multiple products or services to a customer. Determining whether products or services under such contracts are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment.

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

2. Revenue recognition and receivables (continued)

Accounting for the contracts involves the use of various techniques to estimate total contract revenue and costs. VITL estimates profits on its contracts as the difference between the total estimated revenue and expected costs to complete a contract. Contract estimates are based on various assumptions to project the outcome of future events over the course of the contract. These assumptions include labor productivity and availability; the complexity of the work to be performed; and the performance of consultants. As a significant change in one or more of these estimates could affect the profitability of VITL's contracts, VITL reviews and updates contract-related estimates regularly. If at any time the estimate of contract profitability indicates an anticipated loss on the contract, the total loss is recognized in the period it is identified. Accordingly, management recognized losses on contracts in progress at June 30, 2021 of approximately $315,000, which are shown as expenses on the statement of activities.

Revenues recognized over time

Revenue from products and services transferred to customers over time accounted for 67% of revenue in 2021. Revenue recognized over time primarily consists of two overall performance obligations: (1) ongoing services (e.g., operating the VHIE) that provide the customer continuous benefit over time, and (2) development projects that are performed and satisfied over a longer period of time. Revenues related to these performance obligations are recognized over time because control is transferred continuously to the customer as services are provided and the new data platform is developed.

Revenue related to the ongoing services is billed and recognized monthly in a fixed amount as stand-ready performance obligations or as adjusted for service-level agreement (SLA) criteria.

Revenue related to development projects that are performed and satisfied over a longer period of time is recognized over time using costs incurred to date relative to total estimated costs at completion in order to measure progress toward satisfying the performance obligation. Incurred costs represent work performed, which corresponds with, and thereby best depicts, the progress on satisfaction of the performance obligation. Contract costs include labor, consulting costs, software and network costs, and indirect overhead. VITL recognizes adjustments in estimated profit on the contract under the cumulative catch-up method. Under this method, the impact of the adjustment on profit recorded to date is recognized in the period the adjustment is identified. Revenue and profit in future periods of contract performance are recognized using the adjusted estimate.

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

2. Revenue recognition and receivables (continued)

Revenues recognized at a point in time

Revenue from products and services transferred to customers at a point in time accounted for 33% of revenue in 2021. The majority of revenue recognized at a point in time is for system enhancement projects, including design, development, and implementation projects. Revenues on these performance obligations are recognized when the customer obtains control of the product or service, which is generally upon acceptance of the completed product or service by the customer.

Deferred contract costs represent costs incurred in conjunction with progress made toward the completion of these point-in-time deliverables, but for which control has not yet passed to the customer and revenue has not been recognized. Deferred contract costs, which are presented separately to offset period costs incurred in the statement of functional expenses, totaled approximately $245,000 at June 30, 2021.

3. Cash and cash equivalents

For purposes of the statement 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 include an interest-bearing money market account with a balance of approximately $3,165,000 at June 30, 2021.

4. Property and equipment

Property and equipment are 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 service 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 charges during the year ended June 30, 2021.

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

5. 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.

6. Use of estimates

In preparing financial statements in accordance 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.

7. Income taxes

VITL is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code (the 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, 2017 are subject to examination by tax authorities.

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

8. Recently issued accounting pronouncement

Leases

In February 2016, the Financial Accounting Standards Board (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 that 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. VITL is currently evaluating the impact on its financial statements of adopting this pronouncement.

9. Evaluation of subsequent events

In preparing these financial statements, VITL has evaluated events and transactions for potential recognition or disclosure through November 23, 2021, the date the financial statements were available to be issued.

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, 2021:

Cash and cash equivalents	$ 4,471,854
Accounts receivable	117,002
Unbilled accounts receivable	1,570,635
	$ 6,159,491

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, 2021, VITL has financial assets available to fund operating needs for approximately 10 months. All of VITL's outstanding receivables as of June 30, 2021 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, which it expects to be able to renew (see Note E).

C) CONCENTRATIONS

Cash

VITL maintains domestic bank account balances that, 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 statement of activities. As of June 30, 2021, VITL operates under one contract that expires on December 31, 2021, but is renewable annually by mutual agreement for three one-year periods, and is completing certain performance obligations under the previous calendar year's contract, which are expected to be completed by February 2022. Amounts receivable from the State of Vermont, including unbilled receivables, approximated $1,500,000 at June 30, 2021.

VITL also has a significant "program service fees" contract with an accountable care organization (a related party, see Note H) expiring on December 31, 2021, representing 10% of total revenues in 2021, of which approximately $142,000 was included in accounts receivable and unbilled receivables at June 30, 2021.

Significant vendor

VITL licenses software and outsources data hosting and related services (see Note I) from one significant vendor. Total expenses related to agreements with this vendor approximated $980,000 in 2021. Amounts due to this vendor included in accounts payable approximated $87,000 at June 30, 2021.

D) PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2021:

Computer equipment	$ 294,228
Furniture and fixtures	74,859
Leasehold improvements	98,185
	467,272
Less accumulated depreciation and amortization	(333,668)
	$ 133,604

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, 2022. Interest is payable at *The Wall Street Journal* prime rate (3.25% at June 30, 2021) plus 1%. The line of credit is secured by VITL's cash and cash equivalents accounts. There was no balance outstanding at June 30, 2021.

F) OPERATING LEASE

VITL leases office facilities in Burlington, Vermont under an agreement that expires in February 2022. The lease currently requires monthly base rent of approximately $8,200, subject to an annual 3% increase. Total rent expense approximated $126,000 in 2021, including common area maintenance and other operating costs. Future minimum lease payments as of June 30, 2021 are approximately $66,000 for the year ending June 30, 2022.

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 $69,000 in 2021.

H) RELATED-PARTY TRANSACTIONS

A member of VITL's board of directors served as a key employee of an accountable care organization that provides a significant portion of VITL's program service fee revenues (see Note C) during portions of 2021.

Additionally, two members of VITL's board of directors serve as key employees of hospital organizations from which VITL receives program service fee revenues. Revenues from these organizations totaled approximately $80,000 in 2021. At June 30, 2021, no amounts were receivable from either organization.

I) COMMITMENTS

In order to provide sustained access to software and related support to maintain the VHIE, VITL has entered into contracts with several vendors for periods of two to four years. The contracts are cancelable by VITL in the event of the loss of funding from the State of Vermont. Minimum amounts due under the contracts are as follows as of June 30, 2021:

Years ending June 30	Amount
2022	$ 2,516,746
2023	445,320
2024	111,330

J) RISKS AND UNCERTAINTIES

Coronavirus pandemic

On January 30, 2020, the World Health Organization (WHO) declared the coronavirus outbreak a "Public Health Emergency of International Concern," and on March 10, 2020, WHO 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 ended June 30, 2021, VITL did not experience a negative impact on revenue. 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.

Business risks

VITL receives a significant portion of its funding through federal programs, one of which is the HITECH program, whose funding ended on September 30, 2021. This could have a significant impact on VITL's revenue in future years. Additionally, there will be a transition to new funding sources from the Centers for Medicare & Medicaid Services, which may offer lower match rates for funding than current levels, which could mean less overall funding in the future for VHIE activities, even with the maintenance of the current levels of State matching funds.