Vermont Information Technology Leaders, Inc.

Financial Statements
(With Independent Auditors' Report)

June 30, 2023 and 2022

VERMONT INFORMATION TECHNOLOGY LEADERS, INC.
June 30, 2023 and 2022

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McSOLEY McCOY & CO.
Certified Public Accountants and Business Advisors

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying financial statements of Vermont Information Technology Leaders, Inc. (the "Organization"), which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

The 2022 financial statements were audited by us, and we expressed an unmodified opinion on them in our report dated November 30, 2022. The 2022 comparative information has been derived from the Organization's 2022 financial statements. Our report stated that the information presented fairly, in all material respects, the financial position of the Organization.

McSoley McCoy & Co.

South Burlington, Vermont
November 20, 2023
VT Reg. No. 92-349

Vermont Information Technology Leaders, Inc.
Statements of Financial Position
For the Years Ended June, 30, 2023 and 2022

	2023	2022
Assets:		
Current assets:		
Cash and cash equivalents	$ 6,922,188	$ 6,114,430
Accounts receivable	39,852	72,840
Unbilled accounts receivable	2,757,040	1,796,772
Prepaid expenses	158,436	112,941
Deferred contract costs	455,455	63,385
Total current assets	10,332,971	8,160,368
Property and equipment, net	54,167	65,887
Other assets	3,510	3,510
Total assets	$ 10,390,648	$ 8,229,765
Liabilities and Net Assets:		
Current liabilities:		
Accounts payable	$ 859,445	$ 508,989
Accrued expenses	483,674	503,587
Accrued loss provisions on contracts	642,129	108,919
Deferred revenue	2,216,955	1,469,791
Total current liabilities	4,202,203	2,591,286
Net assets:		
Without donor restrictions	6,188,445	5,638,479
Total liabilities and net assets	$ 10,390,648	$ 8,229,765

See accompanying notes to the financial statements.

Vermont Information Technology Leaders, Inc.
Statements of Activities
For the Years Ended June, 30, 2023 and 2022

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenues:						
State of Vermont contracts	$ 8,379,944	$ -	$ 8,379,944	$ 9,385,941	$ -	$ 9,385,941
Program service fees	589,370	-	589,370	890,465	-	890,465
Other	109,854	-	109,854	6,592	-	6,592
Total support and revenues	9,079,168	-	9,079,168	10,282,998	-	10,282,998
Expenses:						
Program services	6,150,373	-	6,150,373	7,575,379		7,575,379
Supporting-general and administrative	1,736,700	-	1,736,700	1,932,843	-	1,932,843
Loss provisions on contracts in progress	642,129	-	642,129	108,919	-	108,919
Total expenses	8,529,202	-	8,529,202	9,617,141	-	9,617,141
Change in net assets	549,966	-	549,966	665,857	-	665,857
Net assets, beginning of year	5,638,479	-	5,638,479	4,972,622	-	4,972,622
Net assets, end of year	$ 6,188,445	$ -	$ 6,188,445	$ 5,638,479	$ -	$ 5,638,479

See accompanying notes to the financial statements.

Vermont Information Technology Leaders, Inc.

Statement of Functional Expenses

For the Year Ended June 30, 2023

(With Comparative Totals for 2022)

	Program Services	Supporting Services	2023 Totals	2022 Totals
Salaries and wages	$ 1,620,651	$ 805,981	$ 2,426,632	$ 2,377,919
Payroll taxes and employee benefits	573,876	285,399	859,275	954,180
Total personnel	2,194,527	1,091,380	3,285,907	3,332,099
Education and outreach	50,534	113,327	163,861	45,489
Insurance	86,452	21,679	108,131	94,875
Network expenses	1,771,220	62,222	1,833,442	419,552
Occupancy	13,816	13,402	27,218	116,318
Other	-	1,948	1,948	24,213
Outside consultants and professional fees	1,869,478	213,256	2,082,734	2,060,377
Software	532,070	86,570	618,640	3,106,334
Supplies	123	4,810	4,933	9,136
Telecommunications	23,372	10,882	34,254	49,576
Training and professional development	851	64,054	64,905	77,804
Travel	-	4,086	4,086	2,965
	6,542,443	1,687,616	8,230,059	9,338,738
Depreciation and amortization	-	49,084	49,084	71,606
				9,410,344
Deferred contract costs	(392,070)	-	(392,070)	97,878
Total expenses	$ 6,150,373	$ 1,736,700	$ 7,887,073	$ 9,508,222

See accompanying notes to the financial statements.

Vermont Information Technology Leaders, Inc.
Statement of Cash Flows
For the Years Ended June, 30, 2023 and 2022

	2023	2022
Cash Flows From Operating Activities:		
Change in net assets	$ 549,966	$ 665,857
Adjustments to reconcile change in net assets to net cash flows provided by operating activities:		
Depreciation	49,084	71,606
(Increase) decrease in assets:		
Unbilled accounts receivable	(927,280)	(173,205)
Prepaid expenses	(45,495)	134,048
Deferred contract costs	(392,070)	181,527
Other assets	-	9,271
Increase (decrease) in liabilities:		
Accounts payable	350,456	44,749
Accrued expenses	(19,913)	(14,279)
Accrued loss provisions on contracts	533,210	(206,084)
Deferred revenue	747,164	932,975
Total adjustments	295,156	980,608
Net cash provided by operating activities	845,122	1,646,465
Cash Flows From Investing Activities:		
Purchase of equipment	(37,364)	(3,889)
Net increase in cash and cash equivalents	807,758	1,642,576
Cash and cash equivalents - beginning of year	6,114,430	4,471,854
Cash and cash equivalents - end of year	$ 6,922,188	$ 6,114,430
Cash consists of:		
Cash received from State of Vermont contracts	$ 8,238,044	$ 10,193,630
Cash received from program service fees	552,028	619,768
Other cash received	112,717	19,112
Cash paid for personnel	(2,947,187)	(3,200,957)
Cash paid for goods and services	(5,147,844)	(5,988,977)
Net increase in cash and cash equivalents	$ 807,758	$ 1,642,576

See accompanying notes to the financial statements.

(1) History of Organization and Nature of Activities

Vermont Information Technology Leaders, Inc. (the "Organization"), is an independent, not-for-profit corporation exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The exempt purpose of the Organization is to securely aggregate, standardize, and share the data needed to improve the effectiveness of healthcare for Vermonters. The Organization 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. The Organization 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. The Organization 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.

(2) Summary of Significant Accounting Policies

(a) Accounting Method and Financial Statement Presentation

The Organization's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) under the accrual method. The Organization reports information regarding its financial position and activities according to two classes of net assets: net assets with donor restrictions and net assets without donor restrictions. The Organization is also required to present statements of functional expenses and cash flows.

(b) Cash and Cash Equivalents / Credit Risk

The Organization considers all investment instruments purchased with an original maturity of three months or less to be cash equivalents. The Organization maintains bank account balances, which at times may exceed federally insured limits. The Organization has not experienced any losses with these accounts. Management believes the Organization is not exposed to any significant credit risk on cash.

(c) Accounts Receivable and Revenue

The Organization uses 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.

Summary of Significant Accounting Policies (continued)

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 the Organization expects to collect. If the financial condition of the Organization'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, 2023 and 2022. Accounts receivable as of June 30, 2023 and 2022 and July 1, 2022, were $39,852, $72,840, and $117,002 with Unbilled accounts receivable balances of $2,757,040, $1,796,772, and $1,570,635, respectively.

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.

The Organization 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.

Accounting for the contracts involves the use of various techniques to estimate total contract revenue and costs. The Organization 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 the Organization's contracts, the Organization 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, 2023 and 2022 of $642,129 and 108,919, respectively which are shown as expenses on the statements of activities.

Summary of Significant Accounting Policies (continued)

Revenues recognized over time - 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. The Organization 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.

Revenues recognized at a point in time - 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. Changes in deferred contract costs, which are presented separately to offset period costs incurred in the statement of functional expenses, totaled ($392,070) and $97,878, respectively at June 30, 2023 and 2022.

(d) 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. Acquisitions of property and equipment in excess of $5,000 per unit or in bulk purchase of similar assets and have an economic useful life of more than one year are capitalized. Leasehold improvements are amortized over the lives of the respective leases or the service lives of the improvements, whichever is shorter.

Summary of Significant Accounting Policies (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 year ended June 30, 2023 and 2022.

(e) Functional Allocation of Expenses

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.

(f) Income Taxes

The Organization is a not-for-profit organization as described in Section 50l(c)(3) of the Internal Revenue Code (the "Code") and is exempt from federal income taxes on related income pursuant to Section 50l(a) of the Code. Accordingly, the Organization has not provided for income taxes in these financial statements.

Each year, management considers whether any material tax position the Organization has taken is more likely than not to be sustained upon examination by the applicable taxing authority. Management believes that any positions the Organization 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, 2020 are subject to examination by tax authorities.

(g) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period reported. Actual results could differ from those estimates.

Summary of Significant Accounting Policies (continued)

(h) Leases

Leases (Topic 842) was effective as of July 1, 2022 and requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. The new standard establishes a right of use (ROU) model that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the statement of income.

The Organization has not recognized the leases disclosed in Note 5 under *Topic 842*, as they are insignificant to the financial statements. These leases will continue to be expensed on a straight line basis over the lease term under *Topic 840*.

(i) Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject certain grantor restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor, or certain grantor, imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the grantor. Other donor-imposed restrictions are perpetual in nature, where the grantor stipulates that resources be maintained in perpetuity. Grantor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. There were no net asses with donor restriction as of June 30, 2023 and 2022.

(j) Comparative Data

The financial statements include certain prior-year summarized comparative information in total, but not by class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2022, from which the summarized information was derived

(k) Subsequent Events

The Organization evaluated subsequent events through November 20, 2023, the date the Organization's financial statements were available to be used.

(3) Retirement Plan

The Organization sponsors a Safe Harbor 401(k) retirement plan that covers substantially all of its employees. Under the plan, the Organization matches employee contributions up to 3% of eligible compensation, in addition to 50% of employee contributions between 3% and 5%. The Organization contributions to the plan charged to operations for the year ended June 30, 2023 and 2022 was $64,618 and $76,649, respectively.

(4) Line of Credit

The Organization has a $500,000 revolving line of credit agreement with TD Bank, N.A., payable on demand and expiring on February 29, 2024. Interest is payable at The Wall Street Journal prime rate (8.25% at June 30, 2023) plus 1%. The line of credit is secured by the Organization's cash and cash equivalents accounts. There was no balance outstanding at June 30, 2023 and 2022.

(5) Operating Leases

The Organization leases office facilities in Vermont, on March 1, 2019 the Organization entered into a lease at 1 Mill Street Burlington. There was a base rent of $7,768, subject to an annual 3% annual increase, the lease expired in February 2022 and was not extended. In March 2022 the Organization entered into a lease at 600 Blair Park, Williston, Vermont. There is a base rent of $1,750, subject to an annual 3% annual increase, the lease expired in February 2023 and extended for an additional year, with additional options to extend for three, one year leases thereafter.

Total rent expense was $21,354 and $93,337, respectively in June 30, 2023 and 2022. Future minimum lease payments as of June 30, 2023 is approximately $21,800.

(6) Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following as of June 30:

	2023	2022
Cash and cash equivalents	$ 6,922,188	$ 6,114,430
Accounts receivalbe	39,852	72,840
Unbilled accounts receivable	2,757,040	1,796,722
Total	$ 9,719,080	$ 7,983,992

Liquidity and Availability (continued)

The Organization regularly monitors liquidity required to meet its operating needs and structures its financial assets to be available as general and program expenditures, liabilities, and other obligations become due. The Organization has several sources of liquidity at its disposal, including cash and cash equivalents and accounts receivable. Additionally, the Organization has a $500,000 line of credit available to meet cash flow needs, which it expects to be able to renew.

In addition to financial assets available to meet general expenditures over the next 12 months, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures. The Organization strives to maintain liquid cash reserves sufficient to cover 45 days of general expenditures. General expenditures include administrative, program, and operating expenses.

(7) Related Party Transactions

A member of the Organization's board of directors served as a key employee of an accountable care organization that provides a significant portion of the Organization's program service fee revenues during June 30, 2022, there were no program service fee revenues in June 30, 2023.

Additionally, during June 30, 2022, four members of the Organization's board of directors serve as key employees of hospital organizations from which the Organization receives program service fee revenues. Revenues from these organizations totaled approximately $80,000, no amounts were receivable from any of these organizations. As of June 30, 2023, there was one member of the Organizations board from which the Organization received revenues of an immaterial amount, there were no receivables from the organization at year end.

(8) Concentrations

Significant customers – The Organization 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, 2023, the Organization operates under one contract that expires on June 30, 2023, but is renewable annually by mutual agreement for three one-year periods, and is completing certain performance obligations under the previous year's contract. Amounts receivable from the State of Vermont, including unbilled receivables, was $2,681,571 and $1,790,941 at June 30, 2023 and 2022.

Significant vendor – The Organization licenses software and outsources data hosting and related services, total expenses related to agreements with this vendor of $266,465 and $1,024,616 in June 30, 2023 and 2022. Amounts due to this vendor are included in accounts payable of $22,332 and $87,473 at June 30, 2023 and 2022. The second vendor provided software licenses, data hosting, project support, and related services for the Organization's new data platform. Total expenses related to agreements with this vendor of $875,617 and $1,069,740 in June 30, 2023 and 2022. Amounts due to this vendor included in accounts payable are $135,953 and $66,644 as of June 30, 2023 and 2022.

(9) Property and Equipment

Property and equipment consist of the following at June 30:

	2023	2022
Computer equipment	$ 335,481	$ 298,117
Furniture and fixtures	14,644	14,644
	350,125	312,761
Less accumulated depreciation and amortization	(295,958)	(246,874)
	$ 54,167	$ 65,887

Depreciation expense amounted to $49,084 and $71,606 for the years ended June 30, 2023 and 2022.

(10) Commitments

In order to provide sustained access to software and related support to maintain the VHIE, the Organization has entered into contracts with several vendors for periods of two to four years with one year remaining. The contracts can be terminated by the Organization in the event of the loss of funding from the State of Vermont or at the convenience of either party. Minimum amounts due under the contracts were $917,921 and $1,993,569 as of June 30, 2023 and 2022, respectively.

(11) Risks and Uncertainties

The Organization receives a significant portion of its funding through federal programs, this could have a significant impact on the Organization's revenue in future years.