



Michigan Health Information Network Shared Services and Subsidiaries

Consolidated Financial Statements
and Supplemental Information
Years Ended September 30, 2021 and 2020

**Michigan Health Information Network
Shared Services and Subsidiaries**

Consolidated Financial Statements and Supplemental Information
Years Ended September 30, 2021 and 2020

Michigan Health Information Network Shared Services and Subsidiaries

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Independent Auditor's Report

Board of Directors
Michigan Health Information Network Shared Services and Subsidiaries
East Lansing, Michigan

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Michigan Health Information Network Shared Services and Subsidiaries (the Organization), which comprise the consolidated statements of financial position as of September 30, 2021 and 2020, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Michigan Health Information Network Shared Services and Subsidiaries as of September 30, 2021 and 2020, 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 (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated 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 consolidated financial statements are issued or available to be issued.



Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 GAAS and *Government 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 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 consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2022 on our consideration of Michigan Health Information Network Shared Services and Subsidiaries' 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 solely 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 effectiveness of Michigan Health Information Network Shared Services and Subsidiaries' 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 Michigan Health Information Network Shared Services and Subsidiaries' internal control over financial reporting and compliance.

BDO USA, LLP

January 28, 2022

Consolidated Financial Statements

**Michigan Health Information Network
Shared Services and Subsidiaries**

Consolidated Statements of Financial Position

<i>September 30,</i>	2021	2020
Assets		
Current Assets		
Cash	\$ 10,023,955	\$ 5,383,424
Agency accounts receivable, net	2,570,978	1,575,562
Other accounts receivable, net	1,763,258	1,538,966
Prepaid expenses	1,386,616	839,310
Total Current Assets	15,744,807	9,337,262
Property and Equipment		
Office equipment	122,511	111,252
Computer equipment and software	7,931,342	7,458,740
Leasehold improvements	169,588	102,307
Work in progress	-	67,282
Total Property and Equipment	8,223,441	7,739,581
Less: accumulated depreciation	(6,020,869)	(4,568,893)
Property and Equipment, Net	2,202,572	3,170,688
Investment in Other Entities	100,000	-
Total Assets	\$ 18,047,379	\$ 12,507,950
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 4,247,260	\$ 1,690,164
Accrued expenses	2,311,461	1,136,700
Software installment purchase	403,110	1,918,541
Deferred revenue	4,919,232	1,300,864
Line of credit	3,000,000	-
Other current liabilities	6,171	-
Total Current Liabilities	14,887,234	6,046,269
Noncurrent Liability		
Software installment purchase, net of current portion	165,884	293,000
Total Liabilities	15,053,118	6,339,269
Net Assets		
Without donor restrictions:		
Undesignated	2,374,434	6,096,912
Noncontrolling interest	619,827	71,769
Total Net Assets	2,994,261	6,168,681
Total Liabilities and Net Assets	\$ 18,047,379	\$ 12,507,950

*See accompanying independent auditor's report
and notes to consolidated financial statements.*

Michigan Health Information Network Shared Services and Subsidiaries

Consolidated Statements of Activities and Changes in Net Assets

Year ended September 30,	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains, and Other Support						
Service fees	\$ 14,685,403	\$ -	\$ 14,685,403	\$ 7,163,164	\$ -	\$ 7,163,164
Contracts and grants	32,517,182	-	32,517,182	24,147,223	-	24,147,223
Other revenue	1,316	-	1,316	-	-	-
Total Revenue, Gains, and Other Support	47,203,901	-	47,203,901	31,310,387	-	31,310,387
Expenses						
Project expense	15,120,818	-	15,120,818	7,411,864	-	7,411,864
Salaries and wages	22,103,786	-	22,103,786	15,759,608	-	15,759,608
Employee benefits	4,253,193	-	4,253,193	2,722,847	-	2,722,847
Payroll taxes	1,671,018	-	1,671,018	1,238,751	-	1,238,751
Supplies	172,508	-	172,508	303,473	-	303,473
Professional services	3,550,074	-	3,550,074	2,368,431	-	2,368,431
Employee relations and training	65,367	-	65,367	75,603	-	75,603
Insurance	266,531	-	266,531	148,796	-	148,796
Meetings and travel	48,218	-	48,218	221,716	-	221,716
Rent	214,033	-	214,033	464,737	-	464,737
Depreciation	2,360,590	-	2,360,590	1,749,452	-	1,749,452
Miscellaneous	550,133	-	550,133	668,166	-	668,166
Total Expenses	50,376,269	-	50,376,269	33,133,444	-	33,133,444
Increase (Decrease) in Net Assets, before non-operating income (expense)	(3,172,368)	-	(3,172,368)	(1,823,057)	-	(1,823,057)
Non-Operating Income (Expense)						
Noncontrolling interest capital contributions	-	-	-	6,000	-	6,000
Income tax expense	(2,052)	-	(2,052)	(4,413)	-	(4,413)
Total Non-Operating Expense	(2,052)	-	(2,052)	1,587	-	1,587
Change in Net Assets	(3,174,420)	-	(3,174,420)	(1,821,470)	-	(1,821,470)
Net Assets, beginning of year	6,168,681	-	6,168,681	7,990,151	-	7,990,151
Net Assets, end of year	\$ 2,994,261	\$ -	\$ 2,994,261	\$ 6,168,681	\$ -	\$ 6,168,681

*See accompanying independent auditor's report
and notes to consolidated financial statements.*

**Michigan Health Information Network
Shared Services and Subsidiaries**

Consolidated Statements of Cash Flows

<i>Year ended September 30,</i>	2021	2020
Cash Flows from Operating Activities		
Change in net assets	\$ (3,174,420)	\$ (1,821,470)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	2,360,590	1,749,452
Deferred income taxes	-	1,306
Loss on disposal of property and equipment	168,516	-
Changes in operating assets and liabilities:		
Agency accounts receivable	(995,416)	1,583,779
Other accounts receivable	118,439	(410,880)
Prepaid expenses	(499,781)	175,164
Accounts payable	2,304,587	590,275
Accrued expenses	978,921	347,716
Software installment purchase	(1,642,547)	(87,386)
Deferred revenue	2,886,312	(222,176)
Other liabilities	6,171	-
Net Cash Provided by Operating Activities	2,511,372	1,905,780
Cash Flows for Investing Activities		
Purchase of property and equipment	(358,579)	(1,616,458)
Cash paid for investment in other entities	(100,000)	-
Business combination, net of cash acquired	(412,262)	(388,469)
Net Cash Used in Investing Activities	(870,841)	(2,004,927)
Cash Flows from Financing Activity		
Proceeds from line of credit	3,000,000	-
Net Cash Provided by Financing Activities	3,000,000	-
Net Increase (Decrease) in Cash	4,640,531	(99,147)
Cash, beginning of year	5,383,424	5,482,571
Cash, end of year	\$ 10,023,955	\$ 5,383,424

See accompanying independent auditor's report and notes to consolidated financial statements.

Michigan Health Information Network Shared Services and Subsidiaries

Notes to Consolidated Financial Statements

1. Nature of Business

Michigan Health Information Network Shared Services (MiHIN) is a public and private nonprofit collaboration dedicated to improving the healthcare experience, improving quality, and decreasing cost for Michigan's people by supporting the statewide exchange of health information and making valuable data available at the point of care. MiHIN was created in December 2010 to administer the technical and business operations of Michigan's State HIE Cooperative Agreement program, created by the Office of the National Coordinator (ONC) for Health Information Technology. MiHIN is a collaboration between Michigan's substate Health Information Exchanges, Michigan's insurer community, and the State of Michigan's government.

In September 2016, Velatura LLC (Velatura) was created, and MiHIN is the sole member. Velatura engages in the sale and resale, for access or use outside the state of Michigan, of certain software and related professional services to be provided by MiHIN under the terms of a hosted software license, reseller, and professional services agreement. During 2019, Velatura changed its legal business name. The new legal business name is Interoperability Institute LLC (IOI).

In June 2019, Velatura Public Benefit Corporation (VPBC) was created, and MiHIN is a 64.34% owner at September 30, 2020. VPBC engages in the improvement of healthcare services, increasing the satisfaction of those involved while reducing total costs. VPBC is a 100% owner of Velatura Services LLC (VS), which was also created in June 2019. VPBC is a 100% owner of USQHIN LLC (USQHIN), which was created in April 2020. VPBC controls 100% of Velatura HIE (VHIE), which was created in December 2020. In December 2020, VHIE entered into a transaction with Missouri Health Connect (MHC) whereby MHC became a fully owned subsidiary of VHIE. VPBC, VS, USQHIN, VHIE, and MHC are consolidated with MiHIN and IOI and report noncontrolling interest for the minority owners.

In December 2019, MiHIN entered into a transaction with Great Lakes Health Connect (GLHC) whereby GLHC became a fully owned subsidiary of MiHIN. The majority of GLHC's operations were closed down and transitioned over to MiHIN in April 2020.

2. Significant Accounting Policies

Financial Statement Presentation and Basis of Accounting

The accompanying consolidated financial statements are presented using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The net assets, revenues and support and expenses in the accompanying consolidated financial statements are classified based on the existence or absence of donor-imposed restrictions.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of MiHIN, IOI, VPBC, VS, USQHIN, VHIE, MHC and GLHC collectively referred to as the Organization. VPBC is not wholly owned by MiHIN, and the portion of its equity not owned by MiHIN has been reflected as noncontrolling interest. Intercompany balances and transactions have been eliminated upon consolidation, including MiHIN's common stock ownership in VPBC.

Michigan Health Information Network Shared Services and Subsidiaries

Notes to Consolidated Financial Statements

Use of Estimates

The preparation of consolidated financial statements in conformity with 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash

Cash consists of cash deposits with a bank. Cash balances at times may exceed the Federal Deposit Insurance Corporation (FDIC) insurance limits. Management believes the credit risk related to these deposits accounts is minimal.

Agency and Other Accounts Receivable

The Organization's accounts receivable are composed primarily of contract and grant revenue at September 30, 2021 and 2020. Accounts receivable are stated at the amount management expects to collect from outstanding balances. At September 30, 2021 there was no allowance for doubtful accounts estimated or recorded by management. At September 30, 2020 the allowance for doubtful accounts, as estimated and recorded by management, was \$56,937. Factors considered in determining collectability include customers' past collection history, an aged analysis of receivables, and economic conditions, as well as the financial health of its customers.

Prepaid Expenses

Prepaid expenses consist of payments made for future expenses for products and services not yet received by the Organization.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is calculated on the straight-line method over the estimated useful lives (see Note 3). Leasehold improvements are recorded at cost, and depreciation is calculated over the estimated useful life or the lease term, whichever is shorter. Costs of maintenance and repairs are charged to expense when incurred.

Impairment or Disposal of Long-lived Assets

The Organization reviews the recoverability of long-lived assets, including leasehold improvements, equipment, internal-use software, and other intangible assets, when events or changes in circumstances occur that indicate the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on the ability to recover the carrying value of the asset from the expected future pre-tax cash flows (undiscounted and without interest charges) of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. The measurement of impairment requires management to make estimates of these cash flows related to long-lived assets, as well as other fair value determinations. There were no impairments in 2021 or 2020.

Michigan Health Information Network Shared Services and Subsidiaries

Notes to Consolidated Financial Statements

Compensated Absences

Compensated absences are charged to operations when earned by employees. Earned and unused benefits are recorded as a current liability and are included in accrued liabilities on the consolidated statements of financial position.

Accrued Expenses

Accrued expenses include accrued vendor bills, accrued payroll, and contract liabilities.

Software Installment Purchase

Software installment purchase consists of liabilities incurred related to certain software installment purchase contracts.

Deferred Revenue

Revenue from grants and contracts received in advance is deferred and recognized as income over the period in which the funds are to be used and earned.

Revenue Recognition

Prior to October 1, 2020, the Organization recognized revenue under Accounting Standards Codification (ASC) Topic 605-35. Effective October 1, 2020, the Organization adopted ASC Topic 606, *Revenue from Contracts with Customers (Topic 606)*. The new standard provides for a comprehensive five-step model for recognizing revenue. The core principle of Topic 606 is that revenue shall be recognized when goods and services promised under a contract are transferred to the customer and for which the Organization is reasonably entitled to compensation.

There is no material difference between revenue recognized under the recognition criteria of Topic 606 and the Organization's previous revenue recognition practices under the previous revenue recognition guidance, ASC Topic 605-35.

Revenue

Contracts and grants revenue is state and federal revenue passed through the Michigan Department of Health and Human Services and other state agencies and is recognized in the period in which the related grant expense is incurred, or the grant requirements have been satisfied. Service fee revenue is recognized as revenue in the period in which such services or programs occur. Some service revenue is received from grant funding. Amounts billed and collected before the services are performed are included in deferred revenue.

Significant Group Concentrations of Credit Risk

For the year ended September 30, 2021 and 2020, 42% and 45%, respectively, of the Organization's contracts and grants revenue was received from the Michigan Department of Health and Human Services.

Michigan Health Information Network Shared Services and Subsidiaries

Notes to Consolidated Financial Statements

Functional Allocation of Expenses

Costs of providing the program and support services have been reported on a functional basis in Note 8. The consolidated financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses required allocation on a reasonable basis that is consistently applied. Salaries and related expenses are allocated on the basis of time and effort. Expenses deemed to be indirect to employee work, such as professional services, insurance, and supplies, are considered to be management and general expenses. Other expenses utilized by all employees, such as occupancy, utilities, depreciation, and training, are also allocated on the basis of time and effort. Costs have been allocated between the various programs and support services based on estimates, as determined by management. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Classifications of Net Assets

Net assets of the Organization are classified based on the presence or absence of donor-imposed restrictions.

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed restrictions or for which the donor-imposed restrictions have expired or been fulfilled. Net assets in this category may be expended for any purpose in performing the primary objectives of the Organization.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time. The Organization reports grants as revenue with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the net assets are reclassified as net assets without donor restriction and reported in the consolidated statements of activities and changes in net assets as net assets released from restrictions. The Organization did not have any net assets with donor restrictions at September 30, 2021 or 2020.

Earnings, gains, and losses on donor-restricted net assets are classified as net assets without donor restrictions unless specifically restricted by the donor or by applicable state law.

Pension Plan

The Organization has a defined contribution plan covering eligible employees. The Organization makes discretionary matching contributions of up to 5% of an employee's wages. The amount of employer contributions to the plan totaled approximately \$1,172,000 and \$587,000 for the years ended September 30, 2021 and 2020, respectively.

Tax Status

MiHIN is a not-for-profit corporation under the provisions of Internal Revenue Code Section 501(c)(3). Therefore, no provision for income taxes is reflected in the financial statements. Net income from activities unrelated to MiHIN's tax-exempt purpose is subject to taxation. Taxes on unrelated business income are not material to the financial statements.

Michigan Health Information Network Shared Services and Subsidiaries

Notes to Consolidated Financial Statements

VPBC is organized as a C Corporation and includes VS, which is a limited liability company and disregarded for income tax purposes. VPBC is subject to federal income taxes. A current tax liability or asset is recognized for the estimated taxes payable or refundable on tax returns for each year. Deferred tax liabilities or assets are recognized for estimated future tax effects of temporary differences between financial reporting and tax accounting and operating loss and tax credit carryforwards. A consolidated tax return is filed for VPBC and its related for-profit subsidiary, VS. As a consolidated group, there was a current tax expense of approximately \$2,000 and \$5,000 in 2021 and 2020, respectively.

IOI is a not-for-profit corporation under the provisions of Internal Revenue Code Section 501(c)(3). Therefore, no provision for income taxes is reflected in the consolidated financial statements. Net income from activities unrelated to IOI's tax-exempt purpose is subject to taxation. Taxes on unrelated business income are not material to the consolidated financial statements.

VHIE is a not-for-profit corporation under the provisions of Internal Revenue Code Section 501(c)(3). Therefore, no provision for income taxes is reflected in the consolidated financial statements. Net income from activities unrelated to VHIE's tax-exempt purpose is subject to taxation. Taxes on unrelated business income are not material to the consolidated financial statements.

MHC is a not-for-profit corporation under the provisions of Internal Revenue Code Section 501(c)(3). Therefore, no provision for income taxes is reflected in the consolidated financial statements. Net income from activities unrelated to MHC's tax exempt purpose is subject to taxation. Taxes on unrelated business income are not material to the consolidated financial statements.

GLHC is a not-for-profit corporation under the provisions of Internal Revenue Code Section 501(c)(3). Therefore, no provision for income taxes is reflected in the consolidated financial statements. Net income from activities unrelated to GLHC's tax-exempt purpose is subject to taxation. Taxes on unrelated business income are not material to the consolidated financial statements.

As of September 30, 2021 and 2020, MiHIN and subsidiaries' unrecognized tax benefits were not significant. There were no significant penalties or interest recognized during the year or accrued at year-end.

Adoption of New Accounting Pronouncement

As of September 30, 2020, the Organization adopted Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions), and (2) determining whether a contribution is conditional. The accounting guidance will result in more governmental contracts being accounted for as contributions and may delay revenue recognition for certain grants and contributions that no longer meet the definition of unconditional. The new guidance was applied on a modified prospective basis. The adoption of this standard had no significant impact on the timing of revenue recognition for government grants and contracts.

Upcoming Accounting Pronouncements

The Financial Accounting Standards Board (FASB) issued ASU 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-to-use

Michigan Health Information Network Shared Services and Subsidiaries

Notes to Consolidated Financial Statements

asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. In June 2020, FASB issued ASU 2020-05 that deferred the effective date for the Organization until annual periods beginning after December 15, 2021, with early adoption permitted. The new lease guidance will be effective for the Organization's year ending September 30, 2023 and will be applied using a modified retrospective transition method to either the beginning of the earliest period presented or the beginning of the year of adoption. The Organization is still evaluating which method it will apply. The new lease standard is expected to have a significant effect on the Organization's consolidated financial statements as a result of the leases for office space classified as operating leases. Upon adoption, the Organization will recognize a lease liability and corresponding right-to-use asset based on the present value of the minimum lease payments. The effects on the results of operations are not expected to be significant, as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including January 28, 2022, which is the date the consolidated financial statements were available to be issued.

Effective December 31, 2021, Velatura HIE Corporation (VHIE) entered into a transaction with Georgia Regional Academic Community Health Information Exchange (GRACHIE) whereby VHIE became the sole member of GRACHIE. In the fiscal year ending September 30, 2022, GRACHIE will be consolidated with the Organization.

3. Property and Equipment

Property and equipment are summarized as follows:

<i>September 30,</i>	2021	2020	Depreciable Life (Years)
Office equipment	\$ 122,511	\$ 111,252	5-7
Computer equipment and software	7,931,342	7,458,740	3-5
Leasehold improvements	169,588	102,307	2-3
Work in progress	-	67,282	N/A
	8,223,441	7,739,581	
Less: accumulated depreciation	(6,020,869)	(4,568,893)	
Property and Equipment, Net	\$ 2,202,572	\$ 3,170,688	

Depreciation expense for 2021 and 2020 was \$2,360,590 and \$1,749,452, respectively.

Michigan Health Information Network Shared Services and Subsidiaries

Notes to Consolidated Financial Statements

4. Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques, taking into account the characteristics of the asset or liability.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Organization's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The Organization also has assets that, under certain conditions, are subject to measurement at fair value on a nonrecurring basis. There were no impairments recorded during the years ended September 30, 2021 and 2020.

5. Line of Credit

On July 16, 2019, the Organization renewed their line of credit agreement with JPMorgan Chase Bank, N.A. for up to \$2,000,000, with a maturity date of January 19, 2021. Interest is payable monthly at a rate of 3.919% above LIBOR rate. The line of credit is collateralized by all assets of the Organization. There were no amounts outstanding during the fiscal year ended September 30, 2020.

On July 1, 2021, the Organization renewed their line of credit agreement with JPMorgan Chase Bank, N.A. with a maturity date of July 2, 2022. Interest is payable monthly at a rate of 3.000% above LIBOR rate (effectively 3.0838% at September 30, 2021). The line of credit is collateralized by all assets of the Organization. There was an outstanding balance of \$3,000,000 at September 30, 2021. The line of credit was increased to \$6,000,000 in October 2021.

**Michigan Health Information Network
Shared Services and Subsidiaries**

Notes to Consolidated Financial Statements

6. VPBC Capital Stock

VPBC capital stock is as follows:

September 30, 2021

	Number of Shares	Amount
Restricted - \$0.00001 par value (non-voting):		
Authorized, 3,325,000 shares		
Issued and outstanding, 3,325,000 shares	3,325,000	\$ 33

September 30, 2020

	Number of Shares	Amount
Restricted - \$0.00001 par value (non-voting):		
Authorized, 3,325,000 shares		
Issued and outstanding, 3,325,000 shares	3,325,000	\$ 33

Restricted Shares Arrangement

During fiscal year September 30, 2019, certain key individuals and employees of the Organization purchased 2,725,000 shares of restricted common of VPBC. During fiscal year September 30, 2020, certain additional key individuals and employees of the Organization purchased 600,000 shares of restricted common stock of VPBC. Restrictions exist as to the individual's ability to vote, sell/transfer the shares, and receive dividends. The restrictions are removed on 33 percent of the shares of restricted stock on the one-year anniversary following the date of the Restricted Stock Agreements and then in a series of successive equal monthly installments of one-twenty-fourth of the restricted shares over the next 24-month period measured from the first anniversary of the Restricted Stock Agreements. As of September 30, 2021 and 2020, 1,123,611 and 2,265,278 shares, respectively, remain restricted.

7. VPBC Stock Incentive Plan

VPBC's 2019 Stock Incentive Plan (the Plan), which is stockholder approved, permits the grant of stock options to its employees for up to 675,000 shares of common stock. VPBC believes that such awards better align the interests of its employees with those of its stockholders. Option awards will be granted with an exercise price equal to the market price of the VPBC's stock at the date of grant. At this time, the plan does not require a vesting period.

As of September 30, 2021 and 2020, no stock options have been granted or were outstanding.

Michigan Health Information Network Shared Services and Subsidiaries

Notes to Consolidated Financial Statements

8. Functional Expenses

The Organization engages in one major program activity, which is to improve health care, lessen the burden of government, and benefit communities serviced. Expenses related to engaging in these activities are as follows:

<i>Year ended September 30,</i>	2021	2020
Program Services		
Project expense	\$ 15,120,818	\$ 7,411,864
Salaries and wages	16,520,948	10,610,757
Employee benefits	3,160,457	1,827,607
Payroll taxes	1,253,836	834,425
Supplies	72,991	37,627
Professional services	1,091,107	45,481
Insurance	126,444	98,568
Meetings and travel	13,520	80,435
Depreciation	2,284,020	1,641,981
Miscellaneous	437	201,418
Total Program Services	39,644,578	22,790,163
Support Services		
Salaries and wages	5,582,838	5,148,851
Employee benefits	1,092,736	895,240
Payroll taxes	417,182	404,326
Supplies	99,517	265,846
Professional services	2,458,967	2,322,950
Employee relations and training	65,367	75,603
Insurance	140,087	50,228
Meetings and travel	34,698	141,281
Rent	214,033	464,737
Depreciation	76,570	107,471
Miscellaneous	549,696	466,748
Income tax expense	2,052	4,413
Total Support Services	10,733,743	10,347,694
Total Functional Expenses	\$ 50,378,321	\$ 33,137,857

9. Liquidity and Availability of Resources

The Organization has \$14,358,191 and \$8,497,952 of financial assets available within one year of September 30 to meet cash needs for general expenditures consisting of cash of \$10,023,955 and \$5,383,424 and accounts receivable of \$4,334,236 and \$3,114,528 as of September 30, 2021 and 2020, respectively. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the consolidated balance sheet date. The accounts receivable are subject to implied time restrictions but are expected to be collected within one year. The Organization has a goal to maintain financial assets, which consist primarily of cash, on hand to meet 60 days of normal operating expenses. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. As more fully described in Note 5, the Organization also has a

Michigan Health Information Network Shared Services and Subsidiaries

Notes to Consolidated Financial Statements

committed line of credit in the amount of \$6,000,000, which it could draw upon in the event of an unanticipated liquidity need.

10. Leases

The Organization is obligated under operating leases primarily for office space expiring at various dates through September 2025. Total rent expense under these leases was \$214,033 and \$464,737 for 2021 and 2020, respectively.

Future minimum annual commitments under these operating leases are as follows:

Year ending September 30,

2022	\$	101,449
2023		103,478
2024		105,547
2025		329,478
Total		\$ 639,952

11. Business Combination

On December 31, 2020, the Organization entered into a transaction, which qualifies for acquisition accounting, with Missouri Health Connect (MHC). The value of the net assets acquired was \$2,092,704.

The transaction resulted in VHIE being the only member of MHC. Accordingly, the assets acquired and liabilities assumed were recorded using their fair value as of December 31, 2020. The following table summarizes the assets acquired and liabilities assumed based on their fair values:

Assets acquired:		
Cash	\$	1,680,442
Accounts receivable		342,731
Prepaid expenses		47,525
Property and equipment, net		1,202,411
Total Assets Acquired		3,273,109
Liabilities assumed:		
Accounts payable		252,509
Accrued expenses		195,840
Deferred revenue		732,056
Total Liabilities Assumed		1,180,405
Net Assets Acquired		\$ 2,092,704

On December 31, 2019, the Organization entered into a transaction, which qualifies for acquisition accounting, with Great Lakes Health Connect (GLHC) a member based 501(c)(3). The value of the net assets acquired was \$976,053.

Michigan Health Information Network Shared Services and Subsidiaries

Notes to Consolidated Financial Statements

The transaction resulted in MiHIN being the only member of GLHC. Accordingly, the assets acquired, and liabilities assumed were recorded using their fair value as of December 31, 2019. The following table summarizes the assets acquired and liabilities assumed based on their fair values:

Assets acquired:		
Cash	\$	587,584
Accounts receivable		928,932
Prepaid expenses		279,235
Property and equipment, net		3,159,651
Total Assets Acquired		4,955,402
Liabilities assumed:		
Accounts payable		155,252
Accrued expenses		470,010
Software installment purchase		2,298,927
Deferred revenue		1,055,160
Total Liabilities Assumed		3,979,349
Net Assets Acquired		\$ 976,053

Supplemental Information



Independent Auditor's Report on Supplemental Information

Our audits of the consolidated financial statements included in the preceding section of this report were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information presented in the following section of this report is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

BDO USA, LLP

January 28, 2022

Michigan Health Information Network Shared Services and Subsidiaries

Consolidating Statement of Financial Position

September 30, 2021

	Michigan Health Information Network Shared Services	Interoperability Institute LLC	Velatura Public Benefit Corporation	Great Lakes Health Connect	Eliminating Entries	Total
Assets						
Current Assets						
Cash	\$ 5,963,317	\$ 816,584	\$ 3,238,042	\$ 6,012	\$ -	\$ 10,023,955
Agency accounts receivable, net	1,884,938	-	686,040	-	-	2,570,978
Other accounts receivable, net	3,566,356	1,650,618	910,770	-	(4,364,486)	1,763,258
Prepaid expenses	1,207,073	65,018	114,525	-	-	1,386,616
Total Current Assets	12,621,684	2,532,220	4,949,377	6,012	(4,364,486)	15,744,807
Property and Equipment						
Office equipment	111,252	-	11,259	-	-	122,511
Computer equipment and software	6,729,165	4,177	1,198,000	-	-	7,931,342
Leasehold improvements	169,588	-	-	-	-	169,588
Work in progress	-	-	-	-	-	-
Total Property and Equipment	7,010,005	4,177	1,209,259	-	-	8,223,441
Less: accumulated depreciation	(5,663,468)	(4,177)	(353,224)	-	-	(6,020,869)
Property and Equipment, Net	1,346,537	-	856,035	-	-	2,202,572
Other Assets						
Investment in affiliate	360,000	-	-	-	(360,000)	-
Investment in other entities	-	-	100,000	-	-	100,000
Advances and loans to affiliates	2,650,242	-	-	-	(2,650,242)	-
Total Other Assets	3,010,242	-	100,000	-	(3,010,242)	100,000
Total Assets	\$ 16,978,463	\$ 2,532,220	\$ 5,905,412	\$ 6,012	\$ (7,374,728)	\$ 18,047,379

**Michigan Health Information Network
Shared Services and Subsidiaries
Consolidating Statement of Financial Position**

September 30, 2021

	Michigan Health Information Network Shared Services	Interoperability Institute LLC	Velatura Public Benefit Corporation	Great Lakes Health Connect	Eliminating Entries	Total
Liabilities and Net Assets						
Current Liabilities						
Accounts payable	\$ 3,545,561	\$ 2,866,894	\$ 2,199,291	\$ -	\$ (4,364,486)	\$ 4,247,260
Accrued expenses	1,912,132	197,648	201,681	-	-	2,311,461
Software installment purchase	403,110	-	-	-	-	403,110
Deferred revenue	3,189,363	5,521	1,724,348	-	-	4,919,232
Line of credit	3,000,000	-	-	-	-	3,000,000
Other current liabilities	6,171	-	-	-	-	6,171
Total Current Liabilities	12,056,337	3,070,063	4,125,320	-	(4,364,486)	14,887,234
Noncurrent Liabilities						
Related party notes payable	-	2,619,974	20,264	10,004	(2,650,242)	-
Software installment purchase, net of current portion	165,884	-	-	-	-	165,884
Total Noncurrent Liabilities	165,884	2,619,974	20,264	10,004	(2,650,242)	165,884
Total Liabilities	12,222,221	5,690,037	4,145,584	10,004	(7,014,728)	15,053,118
Net Assets						
Without donor restrictions:						
Undesignated	4,756,242	(3,157,817)	1,140,001	(3,992)	(360,000)	2,374,434
Noncontrolling interest	-	-	619,827	-	-	619,827
Total Net Assets	4,756,242	(3,157,817)	1,759,828	(3,992)	(360,000)	2,994,261
Total Liabilities and Net Assets	\$ 16,978,463	\$ 2,532,220	\$ 5,905,412	\$ 6,012	\$ (7,374,728)	\$ 18,047,379

See accompanying independent auditors' report on supplemental material.

Michigan Health Information Network Shared Services and Subsidiaries

Consolidating Statement of Activities and Changes in Net Assets

Year ended September 30, 2021

	Michigan Health Information Network Shared Services	Interoperability Institute LLC	Velatura Public Benefit Corporation	Great Lakes Health Connect	Eliminating Entries	Total
Revenue, Gains, and Other Support						
Service fees	\$ 13,329,752	\$ 75,004	\$ 1,328,735	\$ 14,412	\$ (62,500)	\$ 14,685,403
Contracts and grants	25,496,154	11,214,304	11,335,612	-	(15,528,888)	32,517,182
Intercompany revenue	2,953,270	402,915	-	-	(3,356,185)	-
Other revenue	-	-	1,316	-	-	1,316
Total Revenue, Gains, and Other Support	41,779,176	11,692,223	12,665,663	14,412	(18,947,573)	47,203,901
Expenses						
Project expense	19,690,584	5,081,026	5,345,144	2,573	(14,998,509)	15,120,818
Salaries and wages	15,596,952	4,394,084	2,112,750	-	-	22,103,786
Employee benefits	3,300,982	717,673	265,092	-	(30,554)	4,253,193
Payroll taxes	1,159,370	369,507	142,740	-	(599)	1,671,018
Supplies	151,250	20,960	23,085	95	(22,882)	172,508
Professional services	1,816,865	839,817	1,235,723	815	(343,146)	3,550,074
Employee relations and training	32,691	31,991	685	-	-	65,367
Insurance	199,504	31,456	35,571	-	-	266,531
Meetings and travel	27,705	5,663	14,850	-	-	48,218
Rent	214,033	-	-	-	-	214,033
Depreciation	2,006,432	1,276	352,882	-	-	2,360,590
Miscellaneous	470,459	29,677	47,664	4,095	(1,762)	550,133
Intercompany expense	406,144	1,528,100	1,615,877	-	(3,550,121)	-
Total Expenses	45,072,971	13,051,230	11,192,063	7,578	(18,947,573)	50,376,269
Increase (Decrease) in Net Assets Without Donor Restrictions, before non-operating income (expense)	(3,293,795)	(1,359,007)	1,473,600	6,834	-	(3,172,368)
Non-Operating Income (Expense)						
Intercompany transfers	421,122	-	-	(421,122)	-	-
Income tax expense	-	-	(2,052)	-	-	(2,052)
Total Other Non-Operating Income (Expense)	421,122	-	(2,052)	(421,122)	-	(2,052)
Change in Net Assets	(2,872,673)	(1,359,007)	1,471,548	(414,288)	-	(3,174,420)
Net Assets, beginning of year	7,628,915	(1,798,810)	288,280	410,296	(360,000)	6,168,681
Net Assets, end of year	\$ 4,756,242	\$ (3,157,817)	\$ 1,759,828	\$ (3,992)	\$ (360,000)	\$ 2,994,261

See accompanying independent auditors' report on supplemental material.