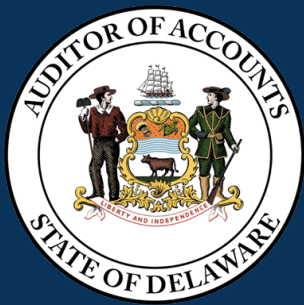




DELAWARE HEALTH INFORMATION NETWORK

FINANCIAL STATEMENT AUDIT
FISCAL YEARS ENDED JUNE 30, 2021 AND 2022



DELAWARE HEALTH INFORMATION NETWORK FINANCIAL STATEMENT AUDIT

REPORT SUMMARY FOR FISCAL YEARS ENDED JUNE 30, 2021, 2022

BACKGROUND

The Delaware Office of Auditor of Accounts presents a financial statement audit of The Delaware Health Information Network (DHIN) for fiscal years ending June 30, 2021, and 2022. DHIN was created by the General Assembly in 1997 as a public-private partnership to benefit all Delawareans. DHIN became a public instrumentality of the State in 2011.



DHIN is the sole corporate member of the Delaware Center for Health Innovation Inc. (DCHI), a charitable nonstock corporation incorporated in 2014. DCHI was created to further the efforts of the Delaware Health Care Commission (DHCC). The goal of DHIN is to advance the creation of a statewide health information network and to address Delaware's need for timely, reliable, and relevant healthcare information. DHIN's major operation is the design and implementation of an integrated statewide health system.

KEY INFORMATION AND FINDINGS

This audit contains an unmodified opinion on the financial statements. An unmodified opinion is sometimes referred to as a "clean" opinion, in which the auditor expresses an opinion that the financial statements are presented fairly, in all material respects, an entity's financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America. There were no findings required to be reported under Government Auditing Standards.

On April 24, 2023, DHIN resigned and withdrew as the sole corporate member of DCHI resulting in DCHI beginning the dissolution process. Upon dissolution, the remaining net position of DCHI will be transferred to DHIN.

DHIN employed approximately 40 employees during Fiscal Year 2022 at a cost of \$5.9 million, representing approximately 55% of total Fiscal Year 2022 expenses. The average cost per employee in FY2022 was \$147,500, which signifies the entity is a highly-specialized operation.



DELAWARE HEALTH INFORMATION NETWORK FINANCIAL STATEMENT AUDIT

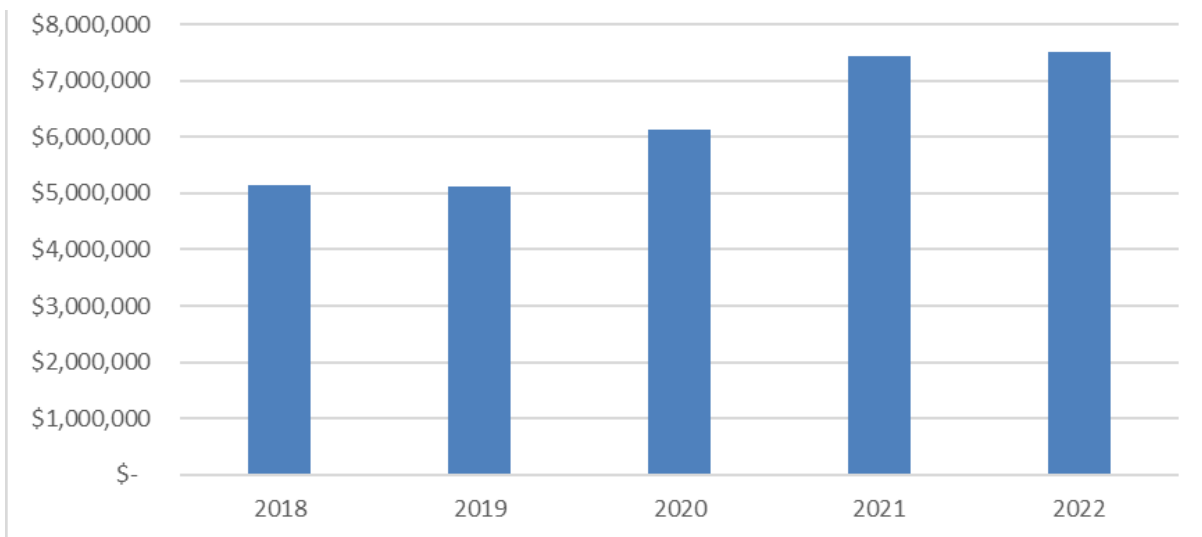
REPORT SUMMARY

FOR FISCAL YEARS ENDED JUNE 30, 2021, 2022

KEY INFORMATION CONTINUED

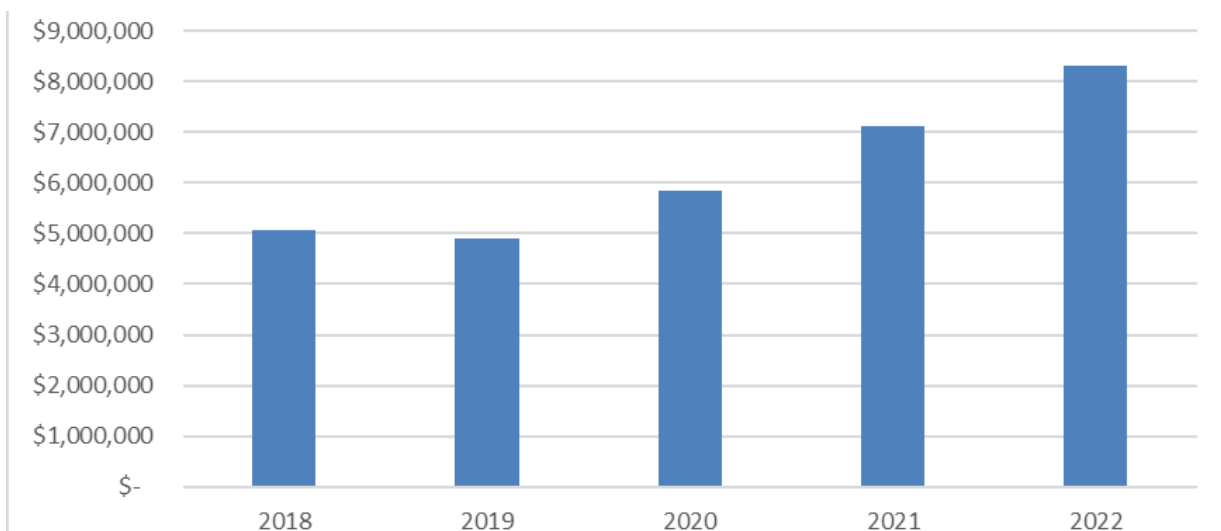
DHIN maintained cash and investment balances as of June 30, 2022 totaling \$7,525,117, which represents a 45.9% increase from FY2018.

CASH AND INVESTMENTS BY FISCAL YEAR



DHIN recognized a change in net position (net income) of \$1.2 million during Fiscal Year 2022. DHIN increased its net position by \$3.3 million since July 1, 2018.

NET POSITION BY FISCAL YEAR



Delaware Health Information Network

**Financial Statements and
Independent Auditors' Report**

June 30, 2022

Delaware Health Information Network
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June 30, 2022

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Independent Auditors' Report

To the Board of Directors
Delaware Health Information Network

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of Delaware Health Information Network (DHIN) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise DHIN's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of DHIN as of June 30, 2022, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 DHIN 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.

Change in Accounting Principle

As described in Note 2 to the financial statements, in 2022 DHIN adopted new accounting guidance, GASBS No. 87, *Leases*. Our opinion is not modified with respect to this matter.

To the Board of Directors
Delaware Health Information Network

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; and for 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 DHIN's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibility 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 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 financial statements.

In performing an audit in accordance with generally accepted auditing standards 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 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.

To the Board of Directors
Delaware Health Information Network

- 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 DHIN'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 DHIN'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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 12 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2023 on our consideration of DHIN's internal control over financial reporting and on our tests of its compliance with

To the Board of Directors
Delaware Health Information Network

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 the DHIN's 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 DHIN's internal control over financial reporting and compliance.

Belfint, Lyons & Shuman, P.A.

December 4, 2023
Wilmington, Delaware

Management's Discussion and Analysis

Delaware Health Information Network
Management's Discussion and Analysis
June 30, 2022

As management of the Delaware Health Information Network (DHIN), we offer readers of DHIN's financial statements this narrative overview and analysis of the financial activities of DHIN for the fiscal year ended June 30, 2022.

DHIN was enacted by the Delaware General Assembly in 1997 as a public-private partnership for the benefit of all citizens of Delaware to advance the creation of a statewide health information network and to address Delaware's needs for timely, reliable, and relevant health care information. Effective January 1, 2011, DHIN became its own self-governing entity as a public instrumentality of the State of Delaware (State).

DHIN is the sole corporate member of the Delaware Center for Health Innovation, Inc. (DCHI), a charitable non-stock corporation. DCHI's financial statements, as of and for the years ended December 31, 2021 and 2020, have been blended with those of DHIN as of and for the years ended June 30, 2022 and 2021, respectively (collectively referred to as the Organization).

DHIN is not required to have a legally adopted budget. Thus, presentation of budgetary comparison information is not required and is not included within management's discussion and analysis.

Financial Highlights

- During the year ended June 30, 2022, the Organization adopted Government Accounting Standards Board (GASB) Statement 87 (GASBS No. 87), *Lease Accounting*. GASBS No. 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right-to-use an underlying asset. Under GASBS No. 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. Transition guidance requires that all prior period financial statements presented be restated to comply with GASBS No. 87. As such, the Organization's June 30, 2021, financial statements have been restated to recognize leases that existed as of July 1, 2020.
- The Organization's total FY 2022 net position increased approximately 17 percent from FY 2021.
- The Organization's operating expenses were \$10,629,459 in FY 2022 which exceed operating revenues by \$1,001,310.
- The Organization's operating revenues increased by \$862,030 during FY 2022.

Delaware Health Information Network
Management's Discussion and Analysis - Continued
June 30, 2022

Financial Highlights - Continued

- Nonoperating revenue decreased by \$493,393 during FY 2022 due to a significant decrease in investment income caused by poor market conditions.
- During FY 2022 DHIN received \$243,993 from the Delaware Health Care Commission (DHCC). DHCC collaborated with DHIN to create CostAware, a website developed to help Delawareans understand how their health care dollars are spent by comparing the variation of average costs for different episodes of care and medical services based on actual medical claims in Delaware.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Organization's basic financial statements. The Organization's basic financial statements are comprised of four components: statement of net position; statement of revenues, expenses, and changes in net position; statement of cash flows; and notes to financial statements.

The Statement of Net Position - presents information on all of the Organization's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position, when read in conjunction with other data, may serve as a useful indicator of whether the financial position of the Organization is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Position - presents information detailing how the Organization's operations generated revenues and expenses, regardless of the timing of cash flows.

The Statement of Cash Flows - presents information detailing the Organization's cash receipts and payments during the fiscal year classified by principal sources and uses and segregated into key elements.

The Notes to Financial Statements - provide additional information that is essential to a full understanding of the data provided in the financial statements.

The financial statements of the Organization have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under this method, fees, charges, and other exchange revenues are recognized when earned, and expenses are recognized when incurred.

Delaware Health Information Network
Management's Discussion and Analysis - Continued
June 30, 2022

Overview of the Financial Statements - Continued

Nonexchange revenues, including intergovernmental revenues and grants, are reported when all eligibility requirements have been met.

The Organization's activities are financed and operated as an enterprise fund such that costs and expenses of providing services are recovered primarily through user charges.

Delaware Health Information Network
Management's Discussion and Analysis - Continued
June 30, 2022

Financial Analysis

	2022	2021*
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 4,510,667	\$ 4,068,111
Investments	3,014,450	3,369,226
Trade Receivables–Net	1,680,550	1,051,593
Prepaid Expenses	248,406	186,171
	9,454,073	8,675,101
Capital Assets		
Property and Equipment–Net	-	25,781
Other Assets		
Lease Deposit	6,979	6,979
Right-of-Use Assets	-	79,926
	6,979	86,905
Total Assets	\$ 9,461,052	\$ 8,787,787
Liabilities and Net Position		
Current Liabilities		
Accounts Payable and Accrued Expenses	\$ 1,105,444	\$ 1,479,010
Unearned Revenue	34,987	107,163
Lease Liabilities	-	82,438
	1,140,431	1,668,611
Total Current Liabilities	1,140,431	1,668,611
Total Liabilities	1,140,431	1,668,611
Net Position		
Invested in Net Capital Assets	-	25,781
Unrestricted	8,320,621	7,093,395
	8,320,621	7,119,176
Total Net Position	8,320,621	7,119,176
Total Liabilities and Net Position	\$ 9,461,052	\$ 8,787,787

*Restated

Delaware Health Information Network
Management's Discussion and Analysis - Continued
June 30, 2022

Financial Analysis - Continued

Total assets exceeded total liabilities by \$8,320,621 at the close of FY 2022.

Assets and Liabilities:

During FY 2022, the Organization implemented GASBS No. 87, *Leases*. Transition guidance requires all prior period financial statements presented be restated to comply with GASBS No. 87. As such, the Organization's June 30, 2021, financial statements have been restated to recognize leases that existed as of July 1, 2020. As a result of the restatement, total assets and liabilities as of June 30, 2021, increased by \$79,926 and \$82,438, respectively.

FY 2022 accounts receivable increased by \$628,957. Management had determined all amounts to be collectable.

Accounts payable decreased by \$373,566 as of June 30, 2022.

Net Position:

As of June 30, 2022 and 2021, net position was not subject to external or internal restrictions.

During FY 2022, the Organization implemented GASBS No. 87, *Leases*. Transition guidance requires all prior period financial statements presented be restated to comply with GASBS No. 87. As such, the Organization's June 30, 2021, financial statements have been restated to recognize leases that existed as of July 1, 2020. As a result of the restatement, total net position as of June 30, 2021, decreased by \$2,512.

The Organization's total FY 2022 net position increased approximately 17 percent from FY 2021. The Organization's total FY 2021 net position increased approximately 22 percent from FY 2020.

Delaware Health Information Network
Management's Discussion and Analysis - Continued
June 30, 2022

Financial Analysis - Continued

	<u>2022</u>	<u>2021*</u>
Operating Revenue		
Core Services		
Results Delivery	\$ 5,336,717	\$ 4,655,315
Community Health Record (CHR)	3,674,217	3,296,431
Total Core Services	<u>9,010,934</u>	<u>7,951,746</u>
Value Added Services		
CHR-Viewing by Providers	156,675	139,392
Medication History Access	24,520	29,589
Encounter Notification Services	146,997	36,431
Image Viewing	14,970	18,850
CCD Exchange	5,083	4,467
Claims Database	66,900	188,846
Professional Services	202,070	396,798
Total Value Added Services	<u>617,215</u>	<u>814,373</u>
Total Operating Revenue	<u>9,628,149</u>	<u>8,766,119</u>
Operating Expenses		
Personnel	5,894,731	5,194,807
Licenses and Software Maintenance	2,682,457	3,037,646
Contractual (Non-Technical)	1,054,367	931,751
Administration	638,464	596,198
Marketing	151,437	146,824
Implementation Costs	102,296	704,051
Depreciation and Amortization	105,707	95,688
Total Operating Expenses	<u>10,629,459</u>	<u>10,706,965</u>
Operating Loss	<u>(1,001,310)</u>	<u>(1,940,846)</u>
Nonoperating Revenue		
Grant Revenue	1,964,096	2,236,605
State Appropriation	214,166	215,822
Contributions and Miscellaneous Revenue	133,765	167,381
Cost Aware	243,993	-
Investment Income (Loss)	(353,265)	76,340
Total Nonoperating Revenue	<u>2,202,755</u>	<u>2,696,148</u>
Extraordinary Gain - Loan Forgiveness	<u>-</u>	<u>505,567</u>
Change in Net Position	1,201,445	1,260,869
Net Position —Beginning of Year	<u>7,119,176</u>	<u>5,858,307</u>
Net Position —End of Year	<u>\$ 8,320,621</u>	<u>\$ 7,119,176</u>

*Restated

Delaware Health Information Network
Management's Discussion and Analysis - Continued
June 30, 2022

Financial Analysis - Continued

The Organization's operating revenues increased by \$862,030 during FY 2022 due to the addition of new data senders during the fiscal year.

Nonoperating revenue decreased by \$493,393 during FY 2022 due to a significant decrease in investment income caused by poor market conditions.

During FY 2022 DHIN received \$243,993 from the Delaware Health Care Commission (DHCC). DHCC collaborated with DHIN to create CostAware, a website developed to help Delawareans understand how their health care dollars are spent by comparing the variation of average costs for different episodes of care and medical services based on actual medical claims in Delaware.

Administration expenses represent overhead costs such as rent expense, supplies, computer support, meeting expenses, and travel. Implementation costs expenses represent costs directly related to the implementation of new functions, new data types, Electronic Medical Records (EMR) vendor interfaces, and new data senders. During FY 2022 implementation costs decreased \$601,755 due to delaying certain planned initiatives.

Personnel expenses consist of costs for payroll and payroll-related expenses for employees. These costs increased by \$699,924 during FY 2022 due to hiring new staff and annual salary increases.

Reclassification

Certain reclassifications have been made to the prior year's financial statement to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or net position.

Contacting DHIN's Financial Management

This financial report is designed to provide interested parties with a general overview of DHIN's finances and to demonstrate DHIN's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Delaware Health Information Network, 107 Wolf Creek Blvd #2, Dover, Delaware 19901.

Financial Statements

DELAWARE HEALTH INFORMATION NETWORK
Statement of Net Position
June 30, 2022

Assets

Current Assets

Cash and Cash Equivalents	\$ 4,510,667
Investments	3,014,450
Trade Receivables, Net	1,680,550
Prepaid Expenses	248,406
	9,454,073

Total Current Assets

9,454,073

Other Assets

Lease Deposit	6,979
	6,979

Total Assets

\$ 9,461,052

Liabilities and Net Position

Current Liabilities

Accounts Payable and Accrued Expenses	\$ 1,105,444
Unearned Revenue	34,987
	1,140,431

Total Current Liabilities

1,140,431

Total Liabilities

1,140,431

Net Position

Unrestricted	8,320,621
	8,320,621

Total Liabilities and Net Position

\$ 9,461,052

The accompanying notes are an integral part of these financial statements.

DELAWARE HEALTH INFORMATION NETWORK
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2022

Operating Revenue	
Core Services	
Results Delivery	\$ 5,336,717
Community Health Record (CHR)	3,674,217
	<hr/>
Total Core Services	9,010,934
	<hr/>
Value Added Services:	
CHR-Viewing by Providers	156,675
Medication History Access	24,520
Encounter Notification Services	146,997
Image Viewing	14,970
CCD Exchange	5,083
Claims Database	66,900
Professional Services	202,070
	<hr/>
Total Value Added Services	617,215
	<hr/>
Total Operating Revenue	9,628,149
	<hr/>
Operating Expenses	
Personnel	5,894,731
Licenses and Software Maintenance	2,682,457
Contractual (Nontechnical)	1,054,367
Administration	638,464
Marketing	151,437
Implementation Costs	102,296
Depreciation and Amortization	105,707
	<hr/>
Total Operating Expenses	10,629,459
	<hr/>
Operating Loss	(1,001,310)
	<hr/>
Nonoperating Revenue	
Grant Revenue - Federal	1,964,096
State Appropriation	214,166
Contributions	133,765
Cost Aware	243,993
Interest and Investment Loss	(353,265)
	<hr/>
Total Nonoperating Revenue	2,202,755
	<hr/>
Change in Net Position	1,201,445
	<hr/>
Net Position - Beginning of Year, As Restated	7,119,176
	<hr/>
Net Position - End of Year	\$ 8,320,621
	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

DELAWARE HEALTH INFORMATION NETWORK

Statement of Cash Flows Year Ended June 30, 2022

Cash Flow from Operating Activities	
Cash Received from Customers	\$ 8,927,016
Cash Payments to Suppliers	(5,120,775)
Cash Payments to Employees for Services Including Benefits	<u>(5,838,778)</u>
Net Cash from Operating Activities	<u>(2,032,537)</u>
Cash Flow from Investing Activities	
Interest Income	<u>1,511</u>
Cash Flow from Noncapital Financing Activities	
DCHI Contributions	83,765
Nonoperating Grant Revenue	<u>2,472,255</u>
Net Cash from Noncapital Financing Activities	<u>2,556,020</u>
Cash Flow from Capital and Related Financing Activities	
Lease Payment	<u>(82,438)</u>
Net Change in Cash, Cash Equivalents, and Restricted Cash	442,556
Cash, Cash Equivalents, and Restricted Cash - Beginning of Year	<u>4,068,111</u>
Cash, Cash Equivalents, and Restricted Cash - End of Year	<u><u>\$ 4,510,667</u></u>
Reconciliation of Operating Loss to Net Cash	
Provided (Used) by Operating Activities	
Operating Loss	\$ (1,001,310)
Adjustment to Reconcile Operating Loss to Net Cash	
Provided (Used) by Operating Activities	
Depreciation and Amortization	105,707
(Increase) Decrease in Assets:	
Accounts Receivable	(628,957)
Prepaid Expenses	(62,235)
Increase (Decrease) in Liabilities:	
Accounts Payable and Accrued Expenses	(373,566)
Unearned Revenue	<u>(72,176)</u>
Net Cash Used by Operating Activities	<u><u>\$ (2,032,537)</u></u>

The accompanying notes are an integral part of these financial statements.

Delaware Health Information Network
Notes to Financial Statements
June 30, 2022

Note 1: Nature of Activities

Reporting Entity - Delaware Code, Title 16, Chapter 103, effective January 1, 2011, created a public instrumentality of the State of Delaware (State) known as the Delaware Health Information Network (DHIN). DHIN is governed by 19 voting directors. Of these 19 directors, 15 are appointed by the State's Governor. The Director of the Office of Management and Budget, the Chief Information Officer of the Department of Technology and Information, the Secretary of the Department of Health and Social Services, and the Comptroller General, or their designees, serve as the remaining four directors.

DHIN is a related organization of the State and has not met the criteria to be included in the State's Annual Comprehensive Financial Report. DHIN's activities are financed and operated as an enterprise fund such that costs and expenses of providing services are recovered primarily through user charges.

DHIN is the sole corporate member of the Delaware Center for Health Innovation, Inc. (DCHI), a charitable non-stock corporation, incorporated in the State of Delaware during April 2014. DCHI was created specifically to support and benefit the State of Delaware and the citizens thereof by furthering the efforts of the Delaware Health Care Commission (Commission), an independent public instrumentality established pursuant to *16 Del. C. § 9902*, and DHIN. DCHI's bylaws provide DHIN with the ability to both appoint the voting majority of the board and impose its will.

DHIN follows GASB Statement No. 80, *Blending Requirements for Certain Component Units*, which requires blending of a component unit if the component unit is organized as a not-for-profit corporation in which the primary government is the sole corporate member. As such, DCHI's financial statements, as of and for the year ended December 31, 2021 have been blended with those of DHIN, as of and for the year ended June 30, 2022 (collectively referred to as the Organization).

On April 24, 2023, DHIN resigned and withdrew as the sole corporate member of DCHI resulting in DCHI beginning the dissolution process. Upon dissolution, the remaining net position of DCHI will be transferred to DHIN.

Organization and Operations - DHIN was created as a public-private partnership for the benefit of all citizens of Delaware to advance the creation of a statewide health information network and to address Delaware's needs for timely, reliable, and relevant health care information.

DHIN's major operation is the design and implementation of an integrated, statewide health data system. This health care system shares real-time clinical information among all health care providers (office practices, hospitals, labs, diagnostic facilities, etc.) across the state to improve patient outcomes and patient-provider relationships, while reducing service duplication and the rate of increase in health care spending.

Delaware Health Information Network
Notes to Financial Statements - Continued
June 30, 2022

Note 1: Nature of Activities - Continued

Organization and Operations - Continued - DCHI is a privately funded nonprofit collaboration between public and private organizations, designed to move the State towards a system of care that is driven by quality, value-based payment, and better population health outcomes.

DHIN and DCHI are not health care providers and are not subject to claims under Delaware Code Title 18 Chapter 68. In addition, DHIN and DCHI have no power, unless expressly granted, to pledge the credit or create any debt or liability of the State or any agency thereof.

The Organization's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing U.S. GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established and used by the Organization are discussed in Note 2 of the financial statements.

Note 2: Summary of Significant Accounting Policies

Basis of Accounting - Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied. The financial statements of the Organization have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under this method, fees, charges, and other exchange revenues are recognized when earned, and expenses are recognized when incurred. Nonexchange revenues, including intergovernmental revenues and grants, are reported when all eligibility requirements have been met.

Adoption of Government Accounting Standards Board (GASB) Statements - During FY 2022, the Organization adopted GASB Statement No. 87, *Leases* (GASBS No. 87) effective as of July 1, 2020. GASBS No. 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right-to-use an underlying asset. Due to the adoption of GASBS No. 87, total net position decreased by \$2,512, and total assets and liabilities increased by \$79,926 and \$82,438, respectively, as of July 1, 2021.

During May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASBS No. 96). The objective of GASBS No. 96 is to provide guidance on the accounting and financial reporting for cloud computing and similar subscription-based information technology arrangements. GASBS No. 96 is effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The Organization will adopt GASBS No. 96 during the year ending June 30, 2023.

Delaware Health Information Network
Notes to Financial Statements - Continued
June 30, 2022

Note 2: Summary of Significant Accounting Policies - Continued

Operating Revenues and Expenses - The Organization's operating revenues and expenses consist of charges for services. The Organization's operating expenses consist of the cost of providing those services. Core revenue is shown net of discounts and allowances. For the year ended June 30, 2022 there were no discounts or allowances.

Cash and Cash Equivalents - Cash and cash equivalents are demand deposits, short-term investments, and other deposits held by financial institutions with original maturities of three months or less. At June 30, 2022, cash and cash equivalents consisted only of demand deposits held by financial institutions.

The Organization maintains cash balances at one financial institution located in Dover, Delaware. All deposit accounts were insured up to \$250,000 per institution by the Federal Deposit Insurance Corporation. Uninsured cash balances as of June 30, 2022, totaled \$4,198,468.

Investments - The Organization invests in mutual funds which have no fixed maturity date. As of June 30, 2022, the asset mix of invested mutual funds consisted of the following:

	Fair Value (Level 1)
Investments	
Debt Securities (50.60%)	\$ 1,523,934
Equity Securities (49.40%)	1,490,516
Total Investments at Fair Value	\$ 3,014,450

Realized gains and losses are determined using the identified cost method. Any change in net unrealized gain or loss from the preceding period is reported in the statement of revenues, expenses, and changes in net position. Dividends are recorded on the ex-dividend date. Interest is recorded on the accrual basis. Investment loss is reported as nonoperating revenue on the statement of revenues, expenses, and changes in net position.

Valuation - The Organization categories its investments using the fair value measurements identified in the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset and gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Delaware Health Information Network
Notes to Financial Statements - Continued
June 30, 2022

Note 2: Summary of Significant Accounting Policies - Continued

The three levels of the fair value hierarchy are described below:

Level 1 - Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 - Valuations based on quoted prices for similar assets or liabilities in active markets of identical assets or liabilities in less active markets, such as dealer or broker markets; and

Level 3 - Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques are not based on market, exchange, dealer, or broker-traded transactions. Transactions are recorded on the trade date.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of the Organization's deposit accounts with a single issuer. For investments, the concentration risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Organization limits investments to highly rated investments rate by the S&P. The Organization does not have any individual issuer limits. The Organization's investment policy does not permit investments in short sales, purchase of letter stock or private placement, leveraged transactions, purchases of securities not readily marketable, commodities transactions, real estate, limited partnerships, hedge funds, alcohol, tobacco, gaming or adult entertainment business.

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Organization would not be able to recover the value of its uncollateralized deposits that are in the process of an outside party. Deposit accounts are exposed to custodial risk if the deposits are uninsured, are not registered in the name of the Organization, and are held by either (a) the counterparty or (b) the counterparty's trust department or agent, but not the Organization's name. Custodial credit risk for investments is the risk that in the event of a failure of the counterparty to a transaction, the Organization will not be able to recover the value of investments or collateral securities that are in possession of an outside party. The Organization's investments are fully collateralized.

Delaware Health Information Network
Notes to Financial Statements - Continued
June 30, 2022

Note 2: Summary of Significant Accounting Policies - Continued

Inherent Rate Risk - Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of investments. Fair value fluctuates with interest rates and increasing interest rates could cause fair value to decline below the original cost. To limit the Organization's exposure to fair value losses arising from increasing interest rates and to remain sufficiently liquid to enable the Organization to meet all operating requirements which might be anticipated, the Organization's investment policy limits investments to stock and bonds held in mixed index-based funds. Investments are collateralized by the securities in the fund.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 reporting period. Actual results could differ from those estimates.

Receivables - All receivables are reported net of estimated uncollectible amounts. Accounts are written off when management deems, they are uncollectible. As of June 30, 2022, all amounts were determined by management to be collectible.

Prepaid Expenses - Prepaid expenses represent payments for expenses that have not been incurred as of year end. Prepaid expenses as of June 30, 2022 consist of software support expenses.

Capital Assets - The Organization capitalizes all software and equipment with costs of \$5,000 or greater per unit. Capital assets are depreciated and amortized using the straight-line method over the estimated useful life of the related asset.

Lessee Accounting - Lease liabilities are initially measured at the commencement of the lease term at the present value of payments expected to be made during the lease term. Lease liabilities are subsequently reduced by the principal portion of payments made. Intangible right-to-use leased assets are initially measured at the value of the corresponding liability, adjusted for payments made at or before the lease commencement date, plus certain initial direct costs. Intangible right-to-use leased assets are amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

Key estimates and judgments made by the Organization in measuring lease liabilities and intangible right-to-use leased assets are as follows:

Discount rate - The Organization uses the interest rate implicit in the lease, if readily determinable, or the Organization's estimated incremental borrowing rate.

Delaware Health Information Network
Notes to Financial Statements - Continued
June 30, 2022

Note 2: Summary of Significant Accounting Policies - Continued

Lessee Accounting - Continued

Lease term - The lease term includes the period during which the Organization has a noncancelable right to use the underlying asset, plus periods covered by the Organization's options to extend or terminate a lease if it is reasonably certain that the Organization will exercise or not exercise those options, respectively.

Lease payments - Lease payments included in the measurement of lease liabilities include fixed payments required under the leases, variable payments that are fixed in substance or dependent on an index or rate, and any purchase price option that the Organization is reasonably certain to exercise.

The Organization monitors changes in circumstances that would require a remeasurement of its lease liabilities and intangible right-to-use leased assets and performs remeasurements in the period that those changes in circumstances become known if such changes are expected to significantly affect the amount of the lease liabilities.

Unearned Revenue - The Organization's unearned revenue consists of cash received for which the services have not yet been provided. The Organization will recognize the revenue once they have performed these services.

Net Position - GASB defines net position into three categories:

Invested in Capital Assets, Net of Related Debt - Consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.

Restricted Net Position - Components of net position that are externally restricted by creditors (such as through debt covenants), grantors (both federal and state), contributors, or laws or regulations of other governments. Restrictions may also be imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position - Components of net position whose use is not externally restricted, although their use may be limited by other factors such as board designation.

Delaware Health Information Network
Notes to Financial Statements - Continued
June 30, 2022

Note 2: Summary of Significant Accounting Policies - Continued

Net Position - Continued - When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Organization's policy is to first apply the expense toward restricted resources and then toward unrestricted resources.

The Organization expenses costs as incurred for project development and management. Costs relating to project development and management include expenses for travel, equipment, and consulting.

Administration Expense - Administrative expenses consist of non-people related overhead expenses.

Income Taxes - The Organization meets the definition of an affiliate of a government unit as defined by the Internal Revenue Service and is exempt from federal income tax under section 501(a). In addition, the Organization is exempt from filing Form 990, *Return of Organization Exempt from Income Tax* under section 1.6033-2(g)(6) of the Income Tax Regulations.

Subsequent Events - The Organization's policy is to evaluate events and transactions subsequent to its year end for potential recognition in the financial statements or disclosure in the notes to the financial statements. Management has evaluated all events and transactions through the date of the independent auditors' report, which is the date the financial statements were available to be issued.

Note 3: Related-Party Transactions

Certain members of DHIN's Board of Directors hold key positions in organizations that utilize DHIN services. Additionally, DHIN received both operating and nonoperating revenue from the State of Delaware, which is a related party of DHIN (Note 1). Activity with these organizations as of and during the year ended June 30, 2022 is as follows:

- During FY 2022, DHIN recognized \$3,331,851 in results delivery revenue from related parties. As of June 30, 2022, \$709,863 was due from these parties.
- During FY 2022, DHIN recognized \$1,092,341 in community health record fees from the State Employee Health Fund. As of June 30, 2022, \$91,230 was due from the State Employee Health Fund.

Delaware Health Information Network
Notes to Financial Statements - Continued
June 30, 2022

Note 3: Related-Party Transactions - Continued

- DHIN provides services to managed care organizations (MCOs) who are contracted with the State of Delaware to deliver Medicaid program health care services on behalf of the Division of Medicaid. DHIN recorded \$2,154,691 in community health record fees from these MCOs during the years ended June 30, 2022. As of June 30, 2022, \$296,004 was due from these MCOs.
- During FY 2022, DHIN recognized \$243,993 in nonoperating income from the Delaware Healthcare Commission (DHCC). DHCC has collaborated with DHIN to create CostAware, a website developed to help Delawareans understand how their health care dollars are spent by comparing the variation of average costs for different episodes of care and medical services based on actual medical claims in Delaware.
- During FY 2022, DHIN recognized \$2,178,262 in nonoperating revenue from the State of Delaware, Department of Health and Social Services, Division of Medicaid and Medical Assistance (DMMA). DHIN and DMMA have entered into a professional services agreement for health care claims database (HCCD) configuration and integration services. As of June 30, 2022, \$197,126 was due from DMMA.
- During FY 2022, DCHI received \$40,000 in contribution revenue from organizations who participate on DHIN's Board of Directors.

Note 4: Lease Arrangements - Lessee

During FY 2022, DHIN leased office space through a lease agreement ending on June 30, 2022. Lease costs during FY 2022 totaled \$79,926.

DHIN entered into a 36-month lease agreement for office space beginning July 1, 2022. On July 1, 2022, a right-to-use asset and liability will be recognized in the amount of \$263,414.

DHIN leases office equipment through a month-to-month agreement. The agreement may be canceled at any time by either party. In accordance with GASBS No. 87, the Organization recognizes short-term lease payments as expenses based on the provisions of the lease agreement. Total lease expense during the year ended June 30, 2022, totaled \$6,622.

Delaware Health Information Network
Notes to Financial Statements - Continued
June 30, 2022

Note 5: Property, Equipment, and Software

Property, equipment, and software consisted of the following at June 30:

	2021	FY 2022 Activity	2022
Furniture and Equipment	\$ 14,458	-	\$ 14,458
Software	395,988	-	395,988
Total	410,446	-	410,446
Accumulated Depreciation	(384,665)	(25,781)	(410,446)
Property, Equipment, and Software - Net	<u>\$ 25,781</u>	<u>\$ (25,781)</u>	<u>\$ -</u>

Note 6: Retirement Benefits

DHIN sponsors a defined contribution plan covering all full-time employees. Employees may contribute to the plan immediately upon employment and contributions are matched 3%. Defined contribution expense for DHIN was \$112,531 for the year ended June 30, 2022. Plan provisions and contribution requirements are established and may be amended by DHIN’s board of directors.

DCHI employees do not participate in the defined contribution plan.

Note 7: Concentrations

Large volumes of business transacted with a particular customer, supplier, lender, grantor, or contributor may lead to an organization having a concentration in that particular area. The Organization experienced the following concentrations during the year ended June 30, 2022:

Major Customers - Three major customers accounted for approximately 62% of results delivery revenue during the year ended June 30, 2022. These customers were related parties as of June 30, 2022 (Note 3). Additionally, two major insurance companies accounted for approximately 88% of community health record revenue during the year ended June 30, 2022. These two insurance companies are required by the State to submit claims information to DHIN.

Note 8: Net Positions

As of June 30, 2022, the Organization had no restricted components of net position.

Delaware Health Information Network
Notes to Financial Statements - Continued
June 30, 2022

Note 9: Commitments and Contingencies

In the normal course of business, there are various commitments and contingencies outstanding which are not reflected in these financial statements. In the opinion of management, the outcome of such events, if any, will not have a material effect on the Organization's financial statements.

Note 10: Condensed Combining Information

In accordance with GASB 61, which allows governments engaged only in business-type activities that use a single column for financial statement presentation to blend a component unit by consolidating its financial statement data within the single column of the primary government's presentation, DCHI's financial statements for the year ended December 31, 2021 have been consolidated with those of DHIN's for the year ended June 30, 2022 within a single column on DHIN's statement of net position, statement of revenues, expenses, and changes in net position, and statement of cash flows. The following is condensed combining information as of and for the year ended June 30, 2022:

Delaware Health Information Network
Notes to Financial Statements - Continued
June 30, 2022

Note 10: Condensed Combining Information - Continued

Condensed Combining Statement of Net Position
June 30, 2022

	<u>DHIN</u>	<u>DCHI</u>	<u>Total</u>
Assets			
Current Assets			
Cash and Cash Equivalents	\$ 4,448,468	\$ 62,199	\$ 4,510,667
Investments	3,014,450	-	3,014,450
Trade Receivables, Net	1,680,550	-	1,680,550
Prepaid Expenses	<u>248,406</u>	<u>-</u>	<u>248,406</u>
Total Current Assets	9,391,874	62,199	9,454,073
Other Assets			
Lease Deposit	<u>6,979</u>	<u>-</u>	<u>6,979</u>
Total Assets	<u>\$ 9,398,853</u>	<u>\$ 62,199</u>	<u>\$ 9,461,052</u>
Liabilities and Net Position			
Current Liabilities			
Accounts Payable and Accrued Expenses	\$ 1,077,265	\$ 28,179	\$ 1,105,444
Unearned Revenue	<u>34,987</u>	<u>-</u>	<u>34,987</u>
Total Current Liabilities	<u>1,112,252</u>	<u>28,179</u>	<u>1,140,431</u>
Total Liabilities	<u>1,112,252</u>	<u>28,179</u>	<u>1,140,431</u>
Net Position			
Unrestricted	<u>8,286,601</u>	<u>34,020</u>	<u>8,320,621</u>
Total Net Position	<u>8,286,601</u>	<u>34,020</u>	<u>8,320,621</u>
Total Liabilities and Net Position	<u>\$ 9,398,853</u>	<u>\$ 62,199</u>	<u>\$ 9,461,052</u>

Delaware Health Information Network
Notes to Financial Statements - Continued
June 30, 2022

Statement of Revenue, Expenses, and Changes in Net Position
Year Ended June 30, 2022

	<u>DHIN</u>	<u>DCHI</u>	<u>Total</u>
Revenue and Other Support			
Core Services			
Results Delivery	\$ 5,336,717	\$ -	\$ 5,336,717
Community Health Record (CHR)	3,674,217	-	3,674,217
Total Core Services	9,010,934	-	9,010,934
Value Added Services:			
CHR-Viewing by Providers	156,675	-	156,675
Medication History Access	24,520	-	24,520
Encounter Notification Services	146,997	-	146,997
Image Viewing	14,970	-	14,970
CCD Exchange	5,083	-	5,083
Claims Database	66,900	-	66,900
Professional Services	202,070	-	202,070
Total Value Added Services	617,215	-	617,215
Total Operating Revenue	9,628,149	-	9,628,149
Operating Expenses			
Personnel	5,842,429	52,302	5,894,731
Licenses and Software Maintenance	2,682,457	-	2,682,457
Contractual (Nontechnical)	1,001,488	52,879	1,054,367
Administration	606,226	32,238	638,464
Marketing	151,437	-	151,437
Implementation Costs	102,296	-	102,296
Depreciation and Amortization	105,707	-	105,707
Total Operating Expense	10,492,040	137,419	10,629,459
Operating Loss	(863,891)	(137,419)	(1,001,310)
Nonoperating Revenue			
Grant Revenue - Federal	1,964,096	-	1,964,096
State Appropriation	214,166	-	214,166
Contributions and Miscellaneous Revenue	50,000	83,765	133,765
Cost Aware	243,993	-	243,993
Interest and Investment Income (Loss)	(353,265)	-	(353,265)
Total Nonoperating Revenue	2,118,990	83,765	2,202,755
Change in Net Position	1,255,099	(53,654)	1,201,445
Net Position - Beginning of Year - As Restated	7,031,502	87,674	7,119,176
Net Position - End of Year	<u>\$ 8,286,601</u>	<u>\$ 34,020</u>	<u>\$ 8,320,621</u>

Delaware Health Information Network
Notes to Financial Statements - Continued
June 30, 2022

Statement of Cash Flows
Year Ended June 30, 2022

	<u>DHIN</u>	<u>DCHI</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Customers	\$ 8,927,016	\$ -	\$ 8,927,016
Cash Payments to Suppliers	(5,059,520)	(61,255)	(5,120,775)
Cash Payments to Employees for Services Including Benefits	(5,786,476)	(52,302)	(5,838,778)
NET CASH FROM OPERATING ACTIVITIES	<u>(1,918,980)</u>	<u>(113,557)</u>	<u>(2,032,537)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest Income	1,511	-	1,511
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Contributions	-	83,765	83,765
Nonoperating Grant Revenue	2,472,255	-	2,472,255
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES	<u>2,472,255</u>	<u>83,765</u>	<u>2,556,020</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Lease Payment	(82,438)	-	(82,438)
NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	472,348	(29,792)	442,556
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - Beginning of Year	3,976,120	91,991	4,068,111
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - End of Year	<u>\$ 4,448,468</u>	<u>\$ 62,199</u>	<u>\$ 4,510,667</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating Loss	\$ (863,891)	\$ (137,419)	\$ (1,001,310)
Adjustment to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities			
Depreciation and Amortization	105,707	-	105,707
(Increase) Decrease in Assets:			
Accounts Receivable	(628,957)	-	(628,957)
Prepaid Expenses	(62,235)	-	(62,235)
Increase (Decrease) in Liabilities:			
Accounts Payable and Accrued Expenses	(397,428)	23,862	(373,566)
Unearned Revenue	(72,176)	-	(72,176)
Net Cash Used by Operating Activities	<u>\$ (1,918,980)</u>	<u>\$ (113,557)</u>	<u>\$ (2,032,537)</u>



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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Directors of
Delaware Health Information Network

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Delaware Health Information Network (DHIN), as of and for the year ended June 30, 2022, and the related notes to the financial statements, and have issued our report thereon dated December 4, 2023

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered DHIN's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of DHIN's internal control. Accordingly, we do not express an opinion on the effectiveness of DHIN's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

To the Board of Directors of
Delaware Health Information Network

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether DHIN's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Belfint, Lyons & Shuman, P.A.

December 4, 2023
Wilmington, Delaware