

DELAWARE HEALTH INFORMATION NETWORK

FINANCIAL STATEMENT AUDIT
FISCAL YEAR ENDED JUNE 30, 2023



DELAWARE HEALTH INFORMATION NETWORK

REPORT SUMMARY FISCAL YEAR ENDED JUNE 30, 2023

BACKGROUND

The Delaware Health Information Network (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.

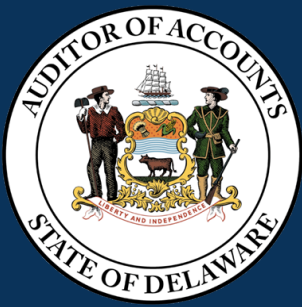
This engagement was performed in accordance with 16 Del. C. § 10303(a)(18) and Del. C. § 2906.

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. The statements show a decrease in cash and net position of \$62,199 and \$34,020, respectively, as a result of the withdrawal. DHIN presents its financial statements as a single year presentation because DCHI was removed as a component unit during FY 2023 (See Note 12 to the financial statements, Change to the Financial Reporting Entity).

The Organization's financial statements as of June 30, 2022, contained a \$461,722 overstatement of trade receivables, a \$38,739 overstatement of results delivery revenue and changes in net position, and a \$422,983 overstatement of beginning of year net position.



DELAWARE HEALTH INFORMATION NETWORK

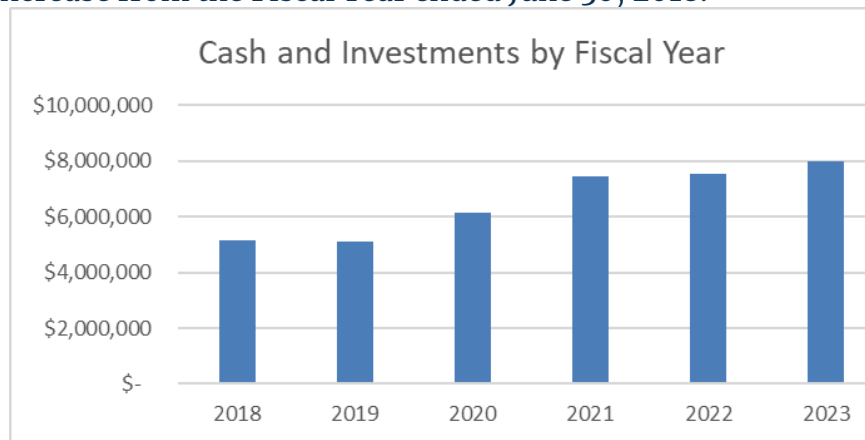
REPORT SUMMARY FISCAL YEAR ENDED JUNE 30, 2023

KEY INFORMATION AND FINDINGS CONTINUED

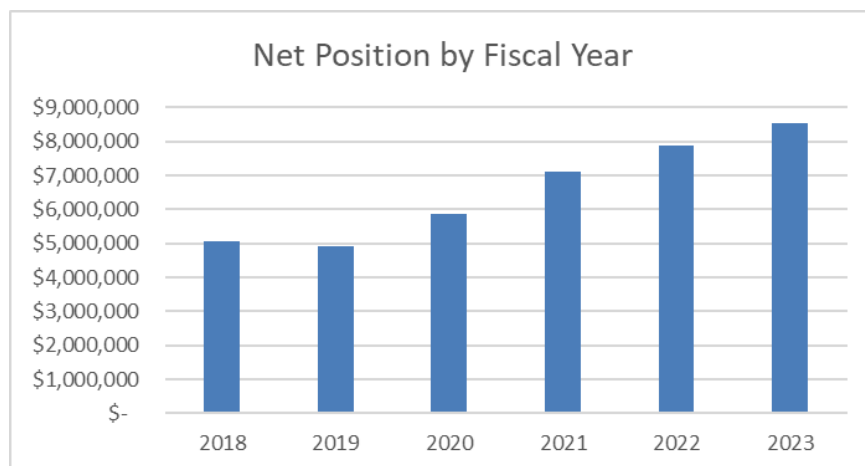
DHIN provides services to managed care organizations (MCOs) who are contracted with the State of Delaware to deliver Medicaid program health care services on behalf of the Division of Medicaid & Medical Assistance (DMMA). DHIN and DMMA have entered into a professional services agreement for health care claims database (HCCD) configuration and integration services. Total revenue earned during Fiscal Year 2023 was \$4,332,953, or 34.4% of total revenue (operating and nonoperating).

DHIN employed approximately 49 employees during Fiscal Year 2023 at a cost of \$7.1 million, representing approximately 58.3% of total Fiscal Year 2022 expenses. The average cost per employee in FY2023 was \$143,873 which signifies the entity is a highly specialized operation.

DHIN maintained cash and investment balances as of June 30, 2023, totaling \$7,991,820, which represents a 55% increase from the Fiscal Year ended June 30, 2018.



DHIN recognized a change in net position (net income) of \$668,707 during Fiscal Year 2023. DHIN increased its net position by \$3.5 million (68.7%) since the Fiscal Year ended June 30, 2018.



Delaware Health Information Network

**Financial Statements and
Independent Auditor's Report**

June 30, 2023

Delaware Health Information Network
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Independent Auditor's 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, 2023, 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, 2023, 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 *Auditor's 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, during 2023 DHIN adopted new accounting guidance, GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* and GASB Statement No. 100, *Accounting Changes and Error Corrections*. 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.

Auditor's 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 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 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 11 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.

To the Board of Directors
Delaware Health Information Network

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2024, our consideration of DHIN's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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.

October 2, 2024
Wilmington, Delaware

Management's Discussion and Analysis

Delaware Health Information Network
Management's Discussion and Analysis
June 30, 2023

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, 2023.

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).

Prior to April 24, 2023, DHIN was 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 year ended December 31, 2021, have been blended with those of DHIN as of and for the year ended June 30, 2022.

On April 24, 2023, DHIN resigned and withdrew as the sole corporate member of DCHI. The removal of a component unit from its financial reporting entity is considered a change to, or within, the financial reporting entity. A change to, or within, the financial reporting entity is reported by adjusting the current reporting period's beginning net position for the effect of the change as if the change occurred as of the beginning of the reporting period. DHIN reduced its net position as of July 1, 2022, by \$34,020 for the effect of removing DCHI as a component unit.

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

- DHIN adopted GASB Statement (GASBS) No. 96, *Subscription-Based Information Technology Arrangements*, effective for the year ended June 30, 2023. The statement establishes new requirements for calculating and reporting subscription-based information technology arrangement activities. The adoption of GASBS No. 96 has been reflected as of July 1, 2022, resulting in an increase in capital assets of \$4,484,980 and an increase in liabilities of \$4,484,980. These balances were calculated using the facts and circumstances that existed as of July 1, 2022, as prescribed by GASBS No. 96. DHIN determined that the restatement of prior years is not practical and the cumulative effect, if any, has been reported as a restatement to beginning net position as of the earliest date presented. There was no impact to beginning net position as of July 1, 2022.

Delaware Health Information Network
Management's Discussion and Analysis - Continued
June 30, 2023

Financial Highlights - Continued

- On June 13, 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections*. GASBS No. 100 improves the reporting requirements for accounting changes and error corrections with the goal of providing clearer and more reliable information to better inform an organization's decision making while providing clarity to the users of financial statements. Accounting changes are defined as changes in accounting principles, changes in accounting estimates, and changes to the financial reporting of the entity with a description of the events or transaction constituting those changes. GASBS No. 100 is effective for fiscal years beginning after June 15, 2023, with early adoption encouraged. DHIN adopted GASB No. 100 effective July 1, 2022.
- The Organization's total FY 2023 net position increased approximately 9 percent from FY 2022.
- The Organization's operating expenses were \$11,879,102 in FY 2023 which exceed operating revenues by \$2,643,055.
- The Organization's operating revenues decreased by \$353,363 during FY 2023.
- Nonoperating revenue increased by \$1,143,027 during FY 2023 due to a significant increase in Cost of Care funding, an increase in reimbursements from the State of Delaware related to the Health Care Claims Database agreement, and increased investment income due to market gains.

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.

Delaware Health Information Network
Management's Discussion and Analysis - Continued
June 30, 2023

Overview of the Financial Statements - Continued

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.

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.

Financial Analysis

Total assets exceeded total liabilities by \$8,527,606 at the close of FY 2023.

Assets and Liabilities:

Total assets and liabilities increased by \$4,191,973 and \$3,523,266, respectively, during FY 2023. These increases were primarily due to recording capital assets and liabilities associated with leasing and subscription-based information technology arrangements.

Net Position:

As of June 30, 2023 and 2022, net position was not subject to external or internal restrictions.

DHIN reduced its net position as of July 1, 2022, by \$34,020 for the effect of removing DCHI as a component unit.

The Organization's total FY 2023 net position increased approximately 9 percent from FY 2022.

Delaware Health Information Network
Management's Discussion and Analysis - Continued
June 30, 2023

Financial Analysis - Continued

	<u>2023</u>	<u>2022*</u>
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 4,693,001	\$ 4,510,667
Investments	3,298,819	3,014,450
Trade Receivables-Net	792,461	1,218,828
Prepaid Expenses	369,861	248,406
Total Current Assets	<u>9,154,142</u>	<u>8,992,351</u>
Other Assets		
Lease Deposit	6,979	6,979
Capital Assets, Net	4,030,182	-
Total Other Assets	<u>4,037,161</u>	<u>6,979</u>
Total Assets	<u><u>\$ 13,191,303</u></u>	<u><u>\$ 8,999,330</u></u>
Liabilities and Net Position		
Current Liabilities		
Accounts Payable and Accrued Expenses	\$ 678,885	\$ 1,105,444
Unearned Revenue	98,510	34,987
Current Maturities of Lease Liabilities	77,876	-
Current Maturities of Subscription-based Information Technology Arrangements	1,404,195	-
Total Current Liabilities	<u>2,259,466</u>	<u>1,140,431</u>
Other Liabilities		
Lease Liabilities (Net of Current Maturities)	84,268	-
Subscription-based Information Technology Arrangements (Net of Current Maturities)	2,319,963	-
Total Other Liabilities	<u>2,404,231</u>	<u>-</u>
Total Liabilities	<u>4,663,697</u>	<u>1,140,431</u>
Net Position		
Unrestricted	<u>8,527,606</u>	<u>7,858,899</u>
Total Net Position	<u>8,527,606</u>	<u>7,858,899</u>
Total Liabilities and Net Position	<u><u>\$ 13,191,303</u></u>	<u><u>\$ 8,999,330</u></u>

*Restated

Delaware Health Information Network
Management's Discussion and Analysis - Continued
June 30, 2023

Financial Analysis - Continued

	<u>2023</u>	<u>2022*</u>
Operating Revenue		
Core Services		
Results Delivery	\$ 4,770,089	\$ 5,297,978
Community Health Record (CHR)	3,926,037	3,674,217
Total Core Services	<u>8,696,126</u>	<u>8,972,195</u>
Value Added Services		
CHR-Viewing by Providers	194,623	156,675
Medication History Access	24,520	24,520
Encounter Notification Services	83,550	146,997
Image Viewing	-	14,970
CCD Exchange	3,920	5,083
Claims Database	14,800	66,900
Professional Services	218,508	202,070
Total Value Added Services	<u>539,921</u>	<u>617,215</u>
Total Operating Revenue	<u>9,236,047</u>	<u>9,589,410</u>
Operating Expenses		
Personnel	7,049,780	5,894,731
Licenses and Software Maintenance	1,033,946	2,682,457
Contractual (Non-Technical)	1,008,375	1,054,367
Administration	716,174	638,464
Marketing	169,094	151,437
Implementation Costs	17,918	102,296
Depreciation and Amortization	1,738,801	105,707
Technology Refresh	145,014	-
Total Operating Expenses	<u>11,879,102</u>	<u>10,629,459</u>
Operating Loss	<u>(2,643,055)</u>	<u>(1,040,049)</u>
Nonoperating Revenue (Expenses)		
Grant Revenue	2,545,059	1,964,096
State Appropriation	282,784	214,166
Contributions and Miscellaneous Revenue	-	133,765
Cost Aware	428,013	243,993
Investment Income (Loss)	292,917	(353,265)
Interest on Capital Asset - Related Debt	(202,991)	-
Total Nonoperating Revenue	<u>3,345,782</u>	<u>2,202,755</u>
Change in Net Position	702,727	1,162,706
Net Position - Beginning of Year	7,858,899	6,696,193
Change in Financial Reporting Entity (Note 12)	(34,020)	-
Net Position - End of Year	<u>\$ 8,527,606</u>	<u>\$ 7,858,899</u>

*Restated

Delaware Health Information Network
Management's Discussion and Analysis - Continued
June 30, 2023

Financial Analysis - Continued

The Organization's operating revenues decreased by \$353,363 during FY 2023 due to a decrease in the number of data senders compared to FY 2022.

Nonoperating revenue increased by \$1,143,027 during FY 2023 due to a significant increase in Cost of Care funding, an increase in reimbursements from the State of Delaware related to the Health Care Claims Database agreement, and increased investment income compared to the prior year.

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.

Technology refresh expenses include expenses for the first stage of the Community Health Record replacement and the reconfiguration of DHIN's internal SharePoint platform.

Personnel expenses consist of costs for payroll and payroll-related expenses for employees. These costs increased by \$1,155,049 during FY 2023 due to hiring additional staff and annual salary increases.

Depreciation and amortization costs increased by \$1,633,094 during FY 2023 due to an increase in capital assets resulting from the Organization's leasing and subscription-based information technology arrangements.

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, 2023

Assets

Current Assets

Cash and Cash Equivalents	\$ 4,693,001
Investments	3,298,819
Trade Receivables, Net	792,461
Prepaid Expenses	<u>369,861</u>
Total Current Assets	<u><u>9,154,142</u></u>

Other Assets

Lease Deposit	6,979
Capital Assets, Net	<u>4,030,182</u>
Total Other Assets	<u><u>4,037,161</u></u>

Total Assets	<u><u>\$ 13,191,303</u></u>
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Liabilities and Net Position

Current Liabilities

Accounts Payable and Accrued Expenses	\$ 678,885
Unearned Revenue	98,510
Current Maturities of Lease Liabilities	77,876
Current Maturities of Subscription-based Information Technology Arrangements	<u>1,404,195</u>
Total Current Liabilities	<u><u>2,259,466</u></u>

Other Liabilities

Lease Liabilities (Net of Current Maturities)	84,268
Subscription-based Information Technology Arrangements (Net of Current Maturities)	<u>2,319,963</u>
Total Other Liabilities	<u><u>2,404,231</u></u>

Total Liabilities	4,663,697
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Net Position

Unrestricted	<u>8,527,606</u>
Total Liabilities and Net Position	<u><u>\$ 13,191,303</u></u>

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, 2023

Operating Revenue	
Core Services	
Results Delivery	\$ 4,770,089
Community Health Record (CHR)	<u>3,926,037</u>
Total Core Services	<u>8,696,126</u>
Value Added Services:	
CHR-Viewing by Providers	194,623
Medication History Access	24,520
Encounter Notification Services	83,550
CCD Exchange	3,920
Claims Database	14,800
Professional Services	<u>218,508</u>
Total Value Added Services	<u>539,921</u>
Total Operating Revenue	<u>9,236,047</u>
Operating Expenses	
Personnel	7,049,780
Licenses and Software Maintenance	1,033,946
Contractual (Nontechnical)	1,008,375
Administration	716,174
Marketing	169,094
Implementation Costs	17,918
Depreciation and Amortization	1,738,801
Technology Refresh	<u>145,014</u>
Total Operating Expenses	<u>11,879,102</u>
Operating Loss	<u>(2,643,055)</u>
Nonoperating Revenue (Expenses)	
Grant Revenue - Federal	2,545,059
State Appropriation	282,784
Cost Aware	428,013
Investment Income	292,917
Interest on Capital Asset - Related Debt	<u>(202,991)</u>
Total Nonoperating Revenue	<u>3,345,782</u>
Change in Net Position	702,727
Net Position - Beginning of Year, As Restated (Note 11)	7,858,899
Change in Financial Reporting Entity (Note 12)	<u>(34,020)</u>
Net Position - End of Year	<u><u>\$ 8,527,606</u></u>

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

DELAWARE HEALTH INFORMATION NETWORK

Statement of Cash Flows Year Ended June 30, 2023

Cash Flow from Operating Activities

Cash Received from Customers	\$ 9,522,946
Cash Payments to Suppliers	(3,435,247)
Cash Payments to Employees for Services Including Benefits	(7,021,898)

Net Cash from Operating Activities (934,199)

Cash Flow from Investing Activities

Interest Income	8,549
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Cash Flow from Noncapital Financing Activities

Nonoperating Grant Revenue	3,255,856
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Cash Flow from Capital and Related Financing Activities

Capitalized Information Technology Arrangements Implementation Costs	(165,856)
Principal Payments on Lease Obligations	(74,270)
Principal Payments on Subscription-based Information Technology Arrangements	(1,642,556)
Interest Payments on Lease Obligations and Subscription-based Technology Arrangements	(202,991)

Net Cash from Capital and Related Financing Activities (2,085,673)

Net Change in Cash and Cash Equivalents

244,533

Cash and Cash Equivalents - Beginning of Year

4,448,468

Cash and Cash Equivalents - End of Year

\$ 4,693,001

Reconciliation of Operating Loss to Net Cash

Provided (Used) by Operating Activities

Operating Loss	\$ (2,643,055)
Adjustment to Reconcile Operating Loss to Net Cash	
Provided (Used) by Operating Activities	
Depreciation and Amortization	1,738,801
(Increase) Decrease in Assets:	
Accounts Receivable	426,367
Prepaid Expenses	(121,455)
Increase (Decrease) in Liabilities:	
Accounts Payable and Accrued Expenses	(398,380)
Unearned Revenue	63,523

Net Cash Used by Operating Activities \$ (934,199)

Noncash Financing and Investing Activities

Subscription-based Information Technology Arrangements and Lease Obligations Arising from Obtaining Right-of-Use Assets	\$ 5,603,128
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The accompanying notes are an integral part of these financial statements.

Delaware Health Information Network
Notes to Financial Statements
June 30, 2023

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.

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.

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

Delaware Health Information Network
Notes to Financial Statements - Continued
June 30, 2023

Note 2: Summary of Significant Accounting Policies - Continued

Basis of Accounting - Continued - 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 - DHIN adopted GASB Statement (GASBS) No. 96, *Subscription-Based Information Technology Arrangements*, effective for the year ended June 30, 2023. The statement establishes new requirements for calculating and reporting subscription-based information technology arrangement activities. DHIN determined that the restatement of prior years is not practical and the cumulative effect, if any, has been reported as a restatement to beginning net position as of the earliest date presented.

The adoption of GASBS No. 96 has been reflected as of July 1, 2022, resulting in an increase in capital assets of \$4,484,980 and an increase in liabilities of \$4,484,980. These balances were calculated using the facts and circumstances that existed as of July 1, 2022, as prescribed by GASBS No. 96. There was no impact to beginning net position as of July 1, 2022.

On June 13, 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections*. GASBS No. 100 improves the reporting requirements for accounting changes and error corrections with the goal of providing clearer and more reliable information to better inform an organization's decision making while providing clarity to the users of financial statements. Accounting changes are defined as changes in accounting principles, changes in accounting estimates, and changes to the financial reporting of the entity with a description of the events or transaction constituting those changes. GASBS No. 100 is effective for fiscal years beginning after June 15, 2023, with early adoption encouraged. DHIN adopted GASB No. 100 effective July 1, 2022.

Operating Revenues and Expenses - The Organization's operating revenues 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, 2023, 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, 2023, cash and cash equivalents consisted only of demand deposits held by financial institutions.

Delaware Health Information Network
Notes to Financial Statements - Continued
June 30, 2023

Note 2: Summary of Significant Accounting Policies - Continued

Cash and Cash Equivalents - Continued - 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, 2023, totaled \$4,498,556.

Investments - The Organization invests in mutual funds which have no fixed maturity date. As of June 30, 2023, the asset mix of invested mutual funds consisted of the following:

	Fair Value (Level 1)
Investments	
Debt Securities (44.78%)	\$ 1,477,094
Equity Securities (55.22%)	1,821,725
Total Investments at Fair Value	\$ 3,298,819

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).

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.

Delaware Health Information Network
Notes to Financial Statements - Continued
June 30, 2023

Note 2: Summary of Significant Accounting Policies - Continued

Investments - Continued

Valuation - Continued

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.

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

Delaware Health Information Network
Notes to Financial Statements - Continued
June 30, 2023

Note 2: Summary of Significant Accounting Policies - Continued

Investments - Continued

Inherent Rate Risk - Continued - 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, 2023, 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, 2023, consist of software support expenses.

Capital Assets - The Organization capitalizes all software and equipment with costs of \$5,000 or greater per unit. Buildings with a cost of \$100,000 or greater are capitalized. These assets are depreciated and amortized using the straight-line method over the estimated useful life of the related asset.

Right-to-use leased assets are initially measured at the present value of the corresponding liability, adjusted for payments made at or before the lease commencement date, plus certain initial direct costs. 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.

Subscription-based information technology arrangements (SBITAs) are recorded at the present value of the subscription liability plus payments made at the commencement of the subscription term and implementation costs, less incentives received at the commencement of the subscription term. SBITAs are amortized systematically over the shorter of the subscription term or the useful life of the underlying IT 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.

Delaware Health Information Network
Notes to Financial Statements - Continued
June 30, 2023

Note 2: Summary of Significant Accounting Policies - Continued

Lessee Accounting - Continued

Key estimates and judgments made by the Organization in measuring lease liabilities and 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.

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 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.

Subscription-based Information Technology Arrangements (SBITAs) Accounting - Subscription liabilities are initially measured at the commencement of the arrangement at the present value of payments expected to be made during the subscription term. Subscription liabilities are subsequently reduced by the principal portion of payments made.

Key estimates and judgments made by the Organization in measuring subscription liabilities and assets are as follows:

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

Subscription term - The subscription term includes the period during which the Organization has a noncancelable right to use the underlying IT assets, plus periods covered by the Organization's

Delaware Health Information Network
Notes to Financial Statements - Continued
June 30, 2023

Note 2: Summary of Significant Accounting Policies - Continued

Subscription-based Information Technology Arrangements (SBITAs) Accounting - Continued

Subscription term - Continued - options to extend or terminate the arrangement if it is reasonably certain that the Organization will exercise or not exercise those options, respectively.

Subscription payments - Subscription payments included in the measurement of subscription liabilities include fixed payments required under the arrangement, 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 subscription liabilities and 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 subscription 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.

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.

Delaware Health Information Network
Notes to Financial Statements - Continued
June 30, 2023

Note 2: Summary of Significant Accounting Policies - Continued

Net Position - Continued

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 auditor's 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 receives 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, 2023, is as follows:

- During FY 2023, DHIN recognized \$3,136,862 in results delivery revenue from related parties.
- During FY 2023, DHIN recognized \$1,100,353 in community health record fees from the State Employee Health Fund. As of June 30, 2023, \$237,933 was due from the State Employee Health Fund.
- 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 \$2,154,242 in community health record fees from these MCOs during the years ended June 30, 2023. As of June 30, 2023, \$197,909 was due from these MCOs.

Delaware Health Information Network
Notes to Financial Statements - Continued
June 30, 2023

Note 3: Related-Party Transactions - Continued

- During FY 2023, DHIN recognized \$428,013 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 2023, DHIN recognized \$2,827,843 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, 2023, \$197,420 was due from DMMA.

Note 4: Capital Assets

Capital asset activity for the year ended June 30, 2023 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Furniture and Equipment	\$ 14,458	\$ -	\$ -	\$ 14,458
Software	395,988	-	-	395,988
Right-to-Use Leased Building	-	236,414	-	236,414
Subscription-based Information Technology Arrangements	-	5,532,569	-	5,532,569
Total	410,446	5,768,983	-	6,179,429
Accumulated Depreciation and Amortization	(410,446)	(1,738,801)	-	(2,149,247)
Capital Assets - Net	\$ -	\$ 4,030,182	\$ -	\$ 4,030,182

Note 5: Lease Agreements and Subscription-based Information Technology Arrangements (SBITAs)

During FY 2023, DHIN entered into a 36-month lease agreement for office space. Expected monthly lease payments during FY 2023, 2024, and 2025 are \$6,991, \$6,991, and \$7,204, respectively.

Delaware Health Information Network
Notes to Financial Statements - Continued
June 30, 2023

Note 5: Lease Agreements and Subscription-based Information Technology Arrangements (SBITAs) - Continued

The lease has been recorded as a right-to-use asset at the present value of the future minimum payments as of the inception date using an estimated incremental borrowing rate of 4.75%.

DHIN has SBITAs that are used for various software licenses and remote hosting arrangements. The SBITAs have been recorded at the present value of the future minimum payments as of the inception date using estimated incremental borrowing rates ranging from 4.75% to 8.25%.

Payments on lease obligations and SBITAs for years succeeding June 30, 2023 are summarized as follows:

Years Ending June 30	Lease Obligation	SBITAs
2024	\$ 83,897	\$ 1,572,160
2025	86,451	1,527,160
2026	-	903,760
Total Future Minimum Lease Payments	170,348	4,003,080
Less: Amount Representing Imputed Interest	8,204	278,922
Present Value of Future Minimum Lease Payments	162,144	3,724,158
Less: Current Maturities	77,876	1,404,195
Present Value of Future Minimum Lease Payments - Net of Current Maturities	<u>\$ 84,268</u>	<u>\$ 2,319,963</u>

Payments on short-term leases and SBITAs are recognized as expenses based on the provisions of the lease/arrangement. Short-term leases and SBITAs are defined as having a maximum possible term of 12 months or less, including any options to extend, regardless of their probability of being exercised.

Total short-term lease payments recognized by DHIN as expenses during FY 2023 was \$6,821.

Delaware Health Information Network
Notes to Financial Statements - Continued
June 30, 2023

Note 6: Long-Term Obligations

Long-Term obligation activity during the year ended June 30, 2023 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Lease Obligation	\$ -	\$ 236,414	\$ (74,270)	\$ 162,144	\$ 77,876
Information Technology Arrangements	-	5,366,713	(1,642,555)	3,724,158	1,404,195
Total	<u>\$ -</u>	<u>\$ 5,603,127</u>	<u>\$(1,716,825)</u>	<u>\$ 3,886,302</u>	<u>\$ 1,482,071</u>

Note 7: 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 \$118,059 during FY 2023. Plan provisions and contribution requirements are established and may be amended by DHIN's board of directors.

Note 8: 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, 2023:

Major Customers - Three major customers accounted for approximately 66% of results delivery revenue during the year ended June 30, 2023. These customers were related parties as of June 30, 2023 (Note 3). Additionally, two major insurance companies accounted for approximately 83% of community health record revenue during the year ended June 30, 2023. These two insurance companies are required by the State to submit claims information to DHIN.

Note 9: Net Positions

As of June 30, 2023, the Organization had no restricted components of net position.

Delaware Health Information Network
Notes to Financial Statements - Continued
June 30, 2023

Note 10: 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 11: Prior Period Restatement

The Organization's financial statements as of June 30, 2022, contained a \$461,722 overstatement of trade receivables, a \$38,739 overstatement of results delivery revenue and changes in net position, and a \$422,983 overstatement of beginning of year net position.

Net position as of July 1, 2022, has been reduced by \$461,722 to correct the aggregate effect of the above misstatements.

Note 12: Change to the Financial Reporting Entity

Prior to April 24, 2023, DHIN was the sole corporate member of the Delaware Center for Health Innovation, Inc. (DCHI), a charitable non-stock corporation, and followed GASB Statement No. 80, *Blending Requirements for Certain Component Units*. GASBS No. 80 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.

On April 24, 2023, DHIN resigned and withdrew as the sole corporate member of DCHI.

The removal of a component unit from its financial reporting entity is considered a change to, or within, the financial reporting entity.

Per GASB Statement No. 100, *Accounting Changes and Error Corrections*, a change to, or within, the financial reporting entity is reporting by adjusting the current reporting period's beginning net position for the effect of the change as if the change occurred as of the beginning of the reporting period. As a result, DHIN reduced its cash and net position as of July 1, 2022, by \$62,199 and \$34,020, respectively, for the effect of removing DCHI as a component unit.



Independent Auditor's 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, 2023, and the related notes to the financial statements, and have issued our report thereon dated October 2, 2024.

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.

October 2, 2024
Wilmington, Delaware