

Annual Financial Report
of the
Health Information Technology Exchange
of Connecticut
Year Ended June 30, 2012

Health Information Technology Exchange of Connecticut

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Independent Auditor's Report

To the Board of Directors of the
Health Information Technology Exchange of Connecticut
East Hartford, Connecticut

We have audited the accompanying financial statements of the Health Information Technology Exchange of Connecticut (the "Exchange"), a component unit of the State of Connecticut, as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Exchange's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Health Information Technology Exchange of Connecticut as of June 30, 2012, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2014 on our consideration of the Exchange'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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, 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.

Mahoney Sabol & Company, LLP

Glastonbury, Connecticut
March 21, 2014

Management's Discussion and Analysis for the year ended June 30, 2012

As management of the Health Information Technology Exchange of Connecticut (the "Exchange"), we offer readers of the Exchange's financial statements this narrative overview and analysis of its financial activities for the fiscal year ended June 30, 2012.

Financial Highlights

- This was the initial year of operations for the Health Information Technology Exchange. The Exchange's current funding consists entirely of a federal grant. The Exchange entered into an agreement with the State of Connecticut Department of Public Health ("DPH") to receive federal funding through the Office of the National Coordinator for Health Information Technology within the U.S. Department of Health and Human Services. The purpose of the grant was to fund the Exchange's implementation of a statewide health information exchange that would improve the delivery and coordination of health care. Intergovernmental revenues recognized under this cost-reimbursement contract totaled \$2,714,696 for the year ended June 30, 2012.
- The Exchange entered into a three year agreement with a third-party contractor, whereby the contractor would provide software licenses, hardware, technical support, maintenance and other services for the development and implementation of the Exchange's statewide electronic health information system. During the year ended June 30, 2012, management reevaluated the project and decided to cease further development and implementation of the system. Market forces, such as the emergence of local health exchanges and negligible adoption of the Exchange's services were contributing factors. Subsequent to June 30, 2012, the Exchange entered into an amended agreement with the contractor, whereby the Exchange agreed to pay \$330,000 as full and final payment for any and all products and services the contractor had provided under the prior agreement. The Exchange has adjusted its financial statements as of and for the year ended June 30, 2012 to reflect the terms of the amended agreement. The total expense recognized by the Exchange under these agreements relating to its health information exchange project amounted to \$2,088,155 for the year ended June 30, 2012.
- Since the Exchange has not begun operations as of June 30, 2012, no operating revenues were recognized. The change in the Exchange's net position for the year amounted to an increase of \$3,379, which reflects the Exchange's net investment in capital assets.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the Health Information Technology Exchange of Connecticut's basic financial statements. The Exchange's basic financial statements comprise two components: 1) financial statements and 2) notes to basic financial statements.

Financial Statements. The financial statements are designed to provide readers with a broad overview of the Exchange's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the Exchange's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Exchange is improving or deteriorating.

The *statement of revenues, expenses, and changes in net position* presents the current year's revenues and expenses.

Notes to basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements.

Financial Analysis

Since the Exchange has not begun operations and is funded solely by the cost reimbursement grant, the change in net position of \$3,379 reflects the Exchange's net investment in capital assets as of June 30, 2012.

The Exchange's net investment in capital assets consists of the net book value of its computer equipment.

The Exchange's net position increased by \$3,379 during its first year of operations.

Statement of Changes in Net Position
Year Ended June 30, 2012

Operating expenses:	
Salaries	\$ 188,723
Health information exchange project	2,088,155
Legal and professional	399,535
Administrative	34,668
Depreciation	236
	<hr/>
Total operating expenses	2,711,317
	<hr/>
Operating loss	(2,711,317)
	<hr/>
Nonoperating revenue:	
Intergovernmental grants	2,714,696
	<hr/>
Change in net position	3,379
	<hr/>
Net position - July 1, 2011	
	<hr/>
Net position - June 30, 2012	\$ 3,379
	<hr/> <hr/>

- Intergovernmental grant revenue consists of federal funding received through an agreement with the State of Connecticut Department of Public Health.
- Health information exchange project expenses represent costs incurred to develop, support and implement the statewide electronic health information exchange. As previously discussed, the Exchange ceased further development and implementation of the system prior to June 30, 2012 and subsequently renegotiated its vendor contract.
- Legal and professional expenses represent the costs incurred to establish the organization and the infrastructure for operations.

Capital Assets

Capital assets: The Exchange's investment in capital assets as of June 30, 2012 totaled \$3,379 (net of accumulated depreciation). This investment in capital assets consists of computer equipment.

Capital Assets - Net	
June 30, 2012	
<hr/>	
Computer equipment	<u><u>\$ 3,379</u></u>

Additional information on the Exchange's capital assets can be found in Note II.C. of this report.

Economic Factors

The Exchange has been entirely funded through a federal grant passed through the State of Connecticut Department of Public Health ("DPH"), which expired on March 14, 2014. No additional funding is expected to be received from DPH. However, on March 21, 2014, the Exchange entered into an agreement with the State of Connecticut Department of Social Services ("DSS") for short-term funding for the period from March 15, 2014 through June 30, 2014. During this time, DSS will fund the Exchange to provide Provider Directory services and support, software and hardware. The Exchange's future objectives and organizational structure remains uncertain. It is likely that the organizational structure of the Exchange will change in fiscal year 2015, whereby remaining activities may be reassigned through legislative action.

Requests for Information

This financial report is designed to provide a general overview of the Exchange's finances for all those with an interest in the Exchange's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to HITE-CT, 101 East River Drive, East Hartford, CT 06108.

Basic Financial Statements

Health Information Technology Exchange of Connecticut

Statement of Net Position

June 30, 2012

<u>ASSETS</u>	
Current Assets:	
Cash	\$ 329,395
Grant receivable	<u>32,898</u>
Total Current Assets	<u>362,293</u>
Noncurrent Assets:	
Capital Assets (net):	
Computer equipment	<u>3,379</u>
Total Assets	<u>365,672</u>
<u>LIABILITIES</u>	
Current Liabilities:	
Accounts payable	334,874
Accrued payroll and related liabilities	25,688
Compensated absences	<u>1,731</u>
Total Liabilities	<u>362,293</u>
<u>NET POSITION</u>	
Net investment in capital assets	<u><u>\$ 3,379</u></u>

Health Information Technology Exchange of ConnecticutStatement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2012

Operating expenses:	
Salaries	\$ 188,723
Health information exchange project	2,088,155
Legal and professional	399,535
Administrative	34,668
Depreciation	236
	<hr/>
Total operating expenses	2,711,317
	<hr/>
Operating loss	(2,711,317)
	<hr/>
Nonoperating revenues:	
Intergovernmental grants	2,714,696
	<hr/>
Change in net position	3,379
	<hr/>
Net position - July 1, 2011	-
	<hr/>
Net position - June 30, 2012	<u><u>\$ 3,379</u></u>

See Notes to Financial Statements.

EXHIBIT C**Health Information Technology Exchange of Connecticut**Statement of Cash Flows
Year Ended June 30, 2012

Cash flows from Operating Activities:	
Payments to suppliers	\$ (2,187,484)
Payments to employees	<u>(161,304)</u>
Net Cash Used In Operating Activities	<u>(2,348,788)</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition and construction of capital assets	<u>(3,615)</u>
Cash Flows from Noncapital and Related Financing Activities:	
Receipts from intergovernmental grants	<u>2,681,798</u>
Net Increase in Cash	329,395
Cash - July 1, 2011	<u>-</u>
Cash - June 30, 2012	<u><u>\$ 329,395</u></u>
Reconciliation of Operating Loss to Net Cash	
Used in Operating Activities	
Operating loss	<u>\$ (2,711,317)</u>
Adjustments to reconcile operating loss to net cash	
used in operating activities:	
Depreciation	236
Increase in:	
Accounts payables	334,874
Accrued expenses	<u>27,419</u>
Total adjustments	<u>362,529</u>
Net Cash Used in Operating Activities	<u><u>\$ (2,348,788)</u></u>

See Notes to Financial Statements.

Health Information Technology Exchange of Connecticut**Notes to Financial Statements**

HISTORY AND ORGANIZATION

In 2011, Public Act No. 10-117 created the Health Information Technology Exchange of Connecticut (the "Exchange") as a quasi-public agency. The vision for the Exchange is to facilitate secure health information exchange across the care continuum that supports patients' health needs at the point of treatment by providing immediate, direct and ongoing links between patients, their complete health records and their attending providers.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**A. Fund Financial Statements**

The Exchange's financial statements (i.e., the statement of net position and the statement of revenues, expenses and changes in fund net position) report information on all of the Exchange's activities. The Exchange relies exclusively on grants for support.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Exchange's financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The Exchange currently has not yet begun operations, therefore, has no operating revenues. Currently the Exchange only has nonoperating revenues from federal grants passed through the State of Connecticut Department of Public Health. Operating expenses for the Exchange include the cost of services, administrative expenses, and depreciation on capital assets.

Health Information Technology Exchange of Connecticut

Notes to Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**C. Assets, Liabilities and Net Position****1. Deposits and Investments**

Deposits - The Exchange's cash consists of demand deposits.

Investments - State of Connecticut Statutes allow the Exchange to invest in obligations of the United States of America or United States government sponsored corporations, in shares or other interests in any custodial arrangement, pool, or no-load, open-end management type investment company or investment trust (as defined), in obligations of any State or political subdivision rated within the top two rating categories of any nationally recognized rating service or in obligations of the State of Connecticut or political subdivision rated within the top three rating categories of any nationally recognized rating service. The Exchange had no investments as of June 30, 2012.

2. Grant Receivable

The grant receivable at June 30, 2012 is considered to be fully collectible.

3. Capital Assets

Capital assets consist of computer equipment. Capital assets are defined by the Exchange as assets with an initial, individual cost of more than \$1,000 and an estimated useful life of two or more years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

The Exchange depreciates capital assets using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Computer equipment	5 years

Health Information Technology Exchange of Connecticut**Notes to Financial Statements**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)***C. Assets, Liabilities and Net Position or Equity (Continued)******4. Compensated Absences***

The Exchange accrues for compensated absences when earned. Employees of the Exchange earn paid time off based on the provisions of the personnel policies. Employees may carry over a maximum of 20 days from one fiscal year to the next.

5. Net Position

Net position is classified into the following categories:

Net Investment in Capital Assets

This category presents the net position that reflect capital assets net of only the debt applicable to the acquisition or construction of these assets. Debt issued for non-capital purposes is excluded.

Restricted Net Position

This category presents the net position restricted by external parties (creditors, grantors, contributors or laws and regulations).

Unrestricted Net Position

This category presents the net position which is not restricted.

6. Net Position Flow Assumption

Sometimes the Exchange will fund outlays for a particular purpose from both restricted (e.g. grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Exchange's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

7. Estimates

The preparation of the 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 including disclosures of contingent assets and liabilities and reported revenues and expenses during the fiscal year. Accordingly, actual results could differ from those estimates.

Health Information Technology Exchange of Connecticut

Notes to Financial Statements

II. DETAILED NOTES

A. Cash

Deposits - Custodial Credit Risk - Custodial credit risk is risk that, in the event of a bank failure, the Exchange's deposits may not be returned to it. The Exchange does not have a deposit policy for custodial credit risk.

As of June 30, 2012, none of the Exchange's bank balance of \$329,395 was exposed to custodial credit.

Financial instruments that potentially subject the Exchange to significant concentrations of credit risk consist primarily of cash. From time to time, the Exchange's cash account balances exceed the Federal Deposit Insurance Corporation limit. The Exchange reduces its credit risk by maintaining its cash deposits with a major financial institution and monitoring its credit ratings.

B. Receivables

Receivables as of June 30, 2012 consisted of a grant receivable from the State of Connecticut Department of Public Health in the amount of \$32,872.

C. Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

	Balance July 1, 2011	Increases	Balance June 30, 2012
Capital assets, being depreciated:			
Computer equipment	\$ -	\$ 3,615	\$ 3,615
Less accumulated depreciation for:			
Computer equipment	-	236	236
Capital assets, net	\$ -	\$ 3,379	\$ 3,379

D. Changes in Long-Term Obligations

Summary of Changes

The following is a summary of changes in long-term obligations during the fiscal year:

Type	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Current Portion
Compensated Absences	\$ -	\$ 1,731	\$ -	\$ 1,731	\$ 1,731

Health Information Technology Exchange of Connecticut**Notes to Financial Statements**

III. OTHER INFORMATION**A. Significant Contracts****State of Connecticut Department of Public Health**

On December 2, 2011, the Exchange entered into an agreement with the State of Connecticut Department of Public Health ("DPH") to receive federal funding through the Office of the National Coordinator for Health Information Technology within the U.S. Department of Health and Human Services. The purpose of the grant was to fund the Exchange's implementation of a statewide health information exchange infrastructure that would improve the delivery and coordination of health care. The effective date of the agreement was dated September 1, 2011 and provided for funding not to exceed \$4,341,252 through March 14, 2014. On December 3, 2013, the DPH amended the agreement to reduce the maximum amount of funding to \$4,089,934. Total intergovernmental revenues recognized for the year ended June 30, 2012 totaled \$2,714,696.

Software Contract

On September 30, 2011, the Exchange entered into a three year agreement with a third-party contractor, whereby the contractor would provide software licenses, hardware, technical support, maintenance and other services for the development and implementation of the Exchange's statewide electronic health information system. The total fee to be paid by the Exchange over the term of the agreement totaled approximately \$6.2 million and included fixed costs of \$4.5 million and estimated costs for implementation, configuration and operations services, travel and training in the amount of \$1.7 million. During the year ended June 30, 2012, management reevaluated the project and decided to terminate the development of its statewide electronic health information system. As a result, the Exchange negotiated an amendment to its existing agreement with the contractor.

On December 11, 2013, the Exchange entered into the amended agreement with the contractor, whereby the Exchange agreed to pay \$330,000 as full and final payment for any and all products and services the contractor had provided under the prior agreement. The Exchange has adjusted its financial statements as of and for the year ended June 30, 2012 to reflect the terms of the amended agreement. The total expense recognized by the Exchange under these agreements relating to its health information exchange project amounted to \$2,088,155 for the year ended June 30, 2012.

Health Information Technology Exchange of Connecticut**Notes to Financial Statements**

III. OTHER INFORMATION (CONTINUED)**A. Significant Contracts (Continued)****Software Contract (Continued)**

Pursuant to the amended agreement executed on December 11, 2013 with the contractor, the Exchange agreed to purchase new software licenses for a provider registry and a provider directory from the contractor and the contractor agreed to provide additional support, maintenance and consulting services for a period of one year from the effective date of the agreement. Fees to be paid by the Exchange under the amended agreement for these products and services total \$640,000 and will be paid from available funding remaining under the Exchange's grant agreement with the DPH.

B. Risk Management

The Exchange is exposed to various risks of loss including torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; natural disaster; and officer and director liability. The Exchange generally obtains commercial insurance for these risks. Settled claims have not exceeded commercial coverage in any of the past three years. There were no significant reductions in insurance coverage from coverage in the prior year.

C. Donated Services

The Exchange is currently being provided office space by the State of Connecticut. The space is being provided free of charge.

D. Contingencies

Grant amounts received from the State of Connecticut Department of Public Health are subject to audit and adjustment by federal and state agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expense which may be disallowed cannot be determined at this time, although the Exchange expects such amounts, if any, to be immaterial.

E. Concentrations

The Exchange has been entirely funded from a federal grant from the Department of Health and Human Services passed through the State of Connecticut Department of Public Health. The grant was awarded for the period March 15, 2011 through March 14, 2014.

Health Information Technology Exchange of Connecticut**Notes to Financial Statements**

III. OTHER INFORMATION (CONTINUED)**F. Related Party**

The Chairman of the Exchange's Board of Director was also the Commissioner of the State of Connecticut Department of Public Health, the Exchange's only funding source for fiscal year 2012.

G. Retirement

The Exchange provided retirement benefits to its employees through a matching contribution under a 401k plan. Contributions made by the Exchange totaled \$12,110 for the year ended June 30, 2012. Subsequent to June 30, 2012, the Exchange discontinued its 401k plan and adopted a 401a plan.

Employees of the Exchange are permitted to participate in the State of Connecticut's deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Exchange is not required to make contributions to this plan.

H. Operations

The Exchange has been entirely funded through a federal grant passed through the State of Connecticut Department of Public Health ("DPH"), which expired on March 14, 2014. No additional funding is expected to be received from DPH. However, on March 21, 2014, the Exchange entered into an agreement with the State of Connecticut Department of Social Services ("DSS") for short-term funding for the period from March 15, 2014 through June 30, 2014. During this time, DSS will fund the Exchange to provide Provider Directory services and support, software and hardware. The Exchange's future objectives and organizational structure remains uncertain. It is likely that the organizational structure of the Exchange will change in fiscal year 2015, whereby remaining activities may be reassigned through legislative action.