

**Delaware Health Information Network**

**Financial Statements,  
Independent Auditors' Reports,  
and Single Audit**

**June 30, 2013 and 2012**

**Issued: October 1, 2013**

**Delaware Health Information Network**  
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**June 30, 2013 and 2012**

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*Independent Auditors' Report*

To the Board of Directors  
Delaware Health Information Network

*Report on the Financial Statements*

We have audited the accompanying financial statements of the business-type activities of Delaware Health Information Network (DHIN) as of and for the years ended June 30, 2013 and 2012 and the related notes to the financial statements, which collectively comprise DHIN's basic financial statements as listed in the table of contents.

*Management's Responsibility for the Financial Statements*

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

*Auditors' Responsibility*

Our responsibility is to express opinions 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the

To the Board of Directors  
Delaware Health Information Network

appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of DHIN, as of June 30, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 9 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.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise DHIN's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements.

To the Board of Directors  
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Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 3, 2013, which can be found on page 22, on 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 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* in considering DHIN's internal control over financial reporting and compliance.

*Belfint, Lyons & Shuman, P.A.*

September 3, 2013  
Wilmington, Delaware

## **Management's Discussion and Analysis**

**Delaware Health Information Network**  
**Management's Discussion and Analysis**  
**June 30, 2013**

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, 2013 (FY 2013). Please read it in conjunction with DHIN's audited financial statements, which begin on page 11.

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).

**Financial Highlights**

- DHIN's total net assets increased approximately 8 percent as a result of FY 2013 operations.
- During FY 2013, DHIN had revenues that were \$187,718 more than the \$6,163,895 generated in total expenses.
- Operating revenues increased by \$1,780,854 (or approximately 92 percent) during FY 2013 as a result of signing new contracts with Medicaid, insurance carriers of the State's Benefit Office, and signing eight new data senders during the year.
- DHIN received an additional \$883,573 in federal funds under a reimbursable federal grant award, as well as a \$1,000,000 contribution from Highmark Blue Cross Blue Shield of Delaware.
- Nonoperating revenues decreased by \$1,113,236 (or approximately 30 percent) during FY 2013 as a result of the State eliminating funding through the State's bond bill.
- Implementation costs increased \$723,045 (or approximately 182 percent) during FY 2013 as a result of implementing new projects, the largest being the Event Notification System which incurred costs of around \$566,000.

**Overview of the Financial Statements**

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

**Delaware Health Information Network**  
**Management's Discussion and Analysis—Continued**  
**June 30, 2013**

**Overview of the Financial Statements—Continued**

*The Statement of Net Assets* presents information on all of DHIN's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets, 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 Assets* presents information detailing how DHIN's operations generated revenues and expenses, regardless of the timing of cash flows.

*The Statement of Cash Flows* presents information detailing DHIN'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 DHIN 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. 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 has elected to apply all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principle Board or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. DHIN has elected not to follow subsequent private-sector FASB guidance.

**Delaware Health Information Network**  
**Management's Discussion and Analysis—Continued**  
**June 30, 2013**

**Financial Analysis**

	2013	2012
<b>Assets</b>		
Cash and Cash Equivalents	\$ 2,263,130	\$ 2,332,193
Restricted Cash	-	228,228
Receivables		
Trade	327,600	81,035
State	-	483,886
Federal	82,814	83,703
Lease Deposit	6,979	6,979
Property and Equipment - Net	11,302	-
<b>Total Assets</b>	<b>\$ 2,691,825</b>	<b>\$ 3,216,024</b>
<b>Liabilities</b>		
Accounts Payable	\$ 149,270	\$ 908,341
Accrued Expenses	108,724	98,320
Deferred Revenue	36,750	-
<b>Total Liabilities</b>	294,744	1,006,661
<b>Net Assets</b>		
Restricted	-	228,228
Unrestricted	2,385,779	1,981,135
Invested in Capital Assets, Net of Related Debt	11,302	-
<b>Total Net Assets</b>	2,397,081	2,209,363
<b>Total Liabilities and Net Assets</b>	<b>\$ 2,691,825</b>	<b>\$ 3,216,024</b>

DHIN's total assets exceeded total liabilities by \$2,397,081 at the close of FY 2013.

During the prior year, a certain amount of DHIN's net assets represented resources that were subject to external and internal restrictions on how they could be utilized. At the close of FY 2013, no amount of DHIN's net assets was subject to external or internal restrictions.

Total unrestricted net assets increased \$404,644 (or approximately 20 percent) during FY 2013.

Total restricted net assets decreased \$228,228 (or 100 percent) during FY 2013.

During FY 2013, DHIN purchased \$14,458 of capital assets, of which \$3,156 was depreciated during the fiscal year. As a result, net assets invested in capital assets, net of related debt increased \$11,302 (or 100 percent).

**Delaware Health Information Network**  
**Management's Discussion and Analysis--Continued**  
**June 30, 2013**

**Financial Analysis--Continued**

	<u>2013</u>	<u>2012</u>
<b>Operating Revenue</b>		
Data Sender Fees	\$ 2,658,612	\$ 1,784,959
Payer Fees	1,048,939	-
Professional Service Income	9,612	151,350
<b>Total Operating Revenue</b>	<u>3,717,163</u>	<u>1,936,309</u>
<b>Expenses</b>		
Administration	292,993	225,169
Contractual (Non-Technical)	887,577	865,725
Depreciation	3,156	-
Implementation Costs	1,120,017	396,972
Licenses and Software Maintenance	1,049,748	1,046,042
Marketing	107,930	71,796
Operations	1,050,662	1,076,699
Personnel	1,651,812	1,417,069
<b>Total Expenses</b>	<u>6,163,895</u>	<u>5,099,472</u>
<b>Operating Loss</b>	<u>(2,446,732)</u>	<u>(3,163,163)</u>
<b>Nonoperating Revenue</b>		
State Operating Assistance	-	2,996,900
Federal Grant Income	1,630,537	746,964
Contributions	1,000,000	-
Interest Income	3,913	3,822
<b>Total Nonoperating Revenue</b>	<u>2,634,450</u>	<u>3,747,686</u>
<b>Change in Net Assets</b>	187,718	584,523
<b>Net Assets - Beginning of Year</b>	<u>2,209,363</u>	<u>1,624,840</u>
<b>Net Assets - End of Year</b>	<u>\$ 2,397,081</u>	<u>\$ 2,209,363</u>

**Delaware Health Information Network**  
**Management's Discussion and Analysis—Continued**  
**June 30, 2013**

**Financial Analysis—Continued**

DHIN activities increased DHIN's total net assets by \$187,718 during FY 2013.

Operating revenues increased by \$1,780,854 (or approximately 92 percent) during FY 2013 as a result of signing new contracts with Medicaid, insurance carriers of the State's Benefit office, and signing eight new data senders during the year.

During FY 2013, funding through the State's bond bill was eliminated. As a result, DHIN signed contracts with Medicaid and insurance carriers of the State's Benefit Office, which generated \$1,048,939 in revenue.

As of June 30, 2013, DHIN has utilized \$2,885,365 million of their \$4,680,284 million federal grant award. The award expires on February 7, 2014.

Administration expenses represent overhead costs such as rent expense, supplies, meeting expenses, and travel.

Implementation costs expenses represent costs directly related to the implementation of new functions, new data types, and new data senders during FY 2013.

Licenses and software maintenance expenses represent costs for license and maintenance costs for functions implemented and data senders joined in prior years.

Marketing expenses represent costs for outreach materials, consumer educational materials, web page rebranding, and brand awareness.

Personnel expenses consist of costs for payroll and payroll-related expenses for DHIN employees.

Total expenses increased \$1,064,423 (or approximately 21 percent) during FY 2013 as a result of the implementation of new projects.

## **Financial Statements**

**Delaware Health Information Network**  
**Statements of Net Assets**  
**June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
<b>Assets</b>		
Cash and Cash Equivalents	\$ 2,263,130	\$ 2,332,193
Restricted Cash	-	228,228
Receivables		
Trade	327,600	81,035
State	-	483,886
Federal	82,814	83,703
Lease Deposit	6,979	6,979
Property and Equipment–Net	<u>11,302</u>	<u>-</u>
<b>Total Assets</b>	<u><u>\$ 2,691,825</u></u>	<u><u>\$ 3,216,024</u></u>
<b>Liabilities</b>		
Accounts Payable	\$ 149,270	\$ 908,341
Accrued Expenses	108,724	98,320
Deferred Revenue	<u>36,750</u>	<u>-</u>
<b>Total Liabilities</b>	<u>294,744</u>	<u>1,006,661</u>
<b>Net Assets</b>		
Restricted	-	228,228
Unrestricted	2,385,779	1,981,135
Invested in Capital Assets, Net of Related Debt	<u>11,302</u>	<u>-</u>
<b>Total Net Assets</b>	<u>2,397,081</u>	<u>2,209,363</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 2,691,825</u></u>	<u><u>\$ 3,216,024</u></u>

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

**Delaware Health Information Network**  
**Statements of Revenues, Expenses, and Changes in Net Assets**  
**Years Ended June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
<b>Operating Revenue</b>		
Data Sender Fees	\$ 2,658,612	\$ 1,784,959
Payer Fees	1,048,939	-
Professional Service Income	9,612	151,350
<b>Total Operating Revenue</b>	<u>3,717,163</u>	<u>1,936,309</u>
<b>Operating Expenses</b>		
Administration	292,993	225,169
Contractual (Non-Technical)	887,577	865,725
Depreciation	3,156	-
Implementation Costs	1,120,017	396,972
Licenses and Software Maintenance	1,049,748	1,046,042
Marketing	107,930	71,796
Operations	1,050,662	1,076,699
Personnel	1,651,812	1,417,069
<b>Total Operating Expenses</b>	<u>6,163,895</u>	<u>5,099,472</u>
<b>Operating Loss</b>	<u>(2,446,732)</u>	<u>(3,163,163)</u>
<b>Nonoperating Revenue</b>		
State Operating Assistance	-	2,996,900
Federal Grant Income	1,630,537	746,964
Contributions	1,000,000	-
Interest Income	3,913	3,822
<b>Total Nonoperating Revenue</b>	<u>2,634,450</u>	<u>3,747,686</u>
<b>Change in Net Assets</b>	<u>187,718</u>	<u>584,523</u>
<b>Net Assets - Beginning of Year</b>	<u>2,209,363</u>	<u>1,624,840</u>
<b>Net Assets - End of Year</b>	<u>\$ 2,397,081</u>	<u>\$ 2,209,363</u>

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

**Delaware Health Information Network**  
**Statements of Cash Flows**  
**Years Ended June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
<b>Cash Flows from Operating Activities</b>		
Cash Received from Customers	\$ 3,507,167	\$ 2,393,693
Cash Payments to Suppliers	(5,360,099)	(2,995,257)
Cash Payments to Employees	<u>(1,549,126)</u>	<u>(1,318,749)</u>
<b>Net Cash from Operating Activities</b>	<u>(3,402,058)</u>	<u>(1,920,313)</u>
<b>Cash Flows from Investing Activities</b>		
Interest Income	3,913	3,822
Net Transfers Restricted Cash	<u>228,228</u>	<u>(127,398)</u>
<b>Net Cash from Investing Activities</b>	<u>232,141</u>	<u>(123,576)</u>
<b>Cash Flows from Capital Financing Activities</b>		
Purchase of Capital Assets	<u>(14,458)</u>	<u>-</u>
<b>Cash Flows from Noncapital Financing Activities</b>		
State Operating Assistance	483,886	2,747,311
Federal Grant Income	1,631,426	854,236
Contributions	<u>1,000,000</u>	<u>-</u>
<b>Net Cash from Noncapital Financing Activities</b>	<u>3,115,312</u>	<u>3,601,547</u>
<b>Change in Cash and Cash Equivalents</b>	(69,063)	1,557,658
<b>Cash and Cash Equivalents - Beginning of Year</b>	<u>2,332,193</u>	<u>774,535</u>
<b>Cash and Cash Equivalents - End of Year</b>	<u><u>\$ 2,263,130</u></u>	<u><u>\$ 2,332,193</u></u>

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

**Delaware Health Information Network**  
**Statements of Cash Flows—Continued**  
**Years Ended June 30, 2013 and 2012**

	<b>2013</b>	<b>2012</b>
<b>Reconciliation of Change in Net Assets to Net Cash from Operating Activities</b>		
Operating Loss	\$ (2,446,732)	\$ (3,163,163)
Adjustments to Reconcile Change in Net Assets to Net Cash From Operating Activities		
Bad Debt	181	27,867
Depreciation	3,156	-
Change in Assets		
Accounts Receivable - Trade	(246,746)	457,384
Change in Liabilities		
Accounts Payable	(759,071)	659,279
Accrued Expenses	10,404	98,320
Deferred Revenue	36,750	-
	<u>\$ (3,402,058)</u>	<u>\$ (1,920,313)</u>
<b>Net Cash from Operating Activities</b>	<u><b>\$ (3,402,058)</b></u>	<u><b>\$ (1,920,313)</b></u>

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

**Delaware Health Information Network**  
**Notes to Financial Statements**  
**June 30, 2013**

**Note 1: Nature of Activities**

**Organization and Operations**—The Delaware Health Information Network (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.

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

DHIN'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 DHIN are discussed in Note 2 of the financial statements.

**Reporting Entity**—Delaware Code, Title 16, Chapter 103, effective January 1, 2011, created a public instrumentality of the State of Delaware known as 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 4 directors.

DHIN is a related organization of the State and has not met the criteria to be included in the States' Comprehensive Annual 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.

**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 DHIN have been prepared using the economic resources measurement focus and the accrual basis of accounting.

**Delaware Health Information Network**  
**Notes to Financial Statements–Continued**  
**June 30, 2013**

**Note 2: Summary of Significant Accounting Policies–Continued**

***Basis of Accounting–Continued***–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.

DHIN has elected to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. DHIN has elected not to follow subsequent private-sector (FASB) guidance.

***Operating Revenues and Expenses***–DHIN’s operating revenues and expenses consist of charges for services and the cost of providing those services. Data sender fees consist of revenue earned by DHIN for providing electronic patient health information exchange services to hospitals, laboratories, and radiology facilities. Payer fees consist of revenue earned by DHIN for providing electronic patient health information services to healthcare insurance providers. All other revenues and expenses are reported as nonoperating. All revenues are shown net of discounts and allowances.

***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.

***Cash and Cash Equivalents***–Cash and cash equivalents are considered to be demand deposits, short-term investments, and other deposits held by financial institutions with original maturities of three months or less.

***Receivables***–All receivables are reported net of estimated uncollectible amounts. As of June 30, 2013 and 2012, all receivables are considered fully collectible by management and no allowance for bad debts has been recorded. Bad debt expense for the fiscal years ended June 30, 2013 and 2012 totaled \$181 and \$27,867, respectively.

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

**Delaware Health Information Network**  
**Notes to Financial Statements–Continued**  
**June 30, 2013**

**Note 2: Summary of Significant Accounting Policies–Continued**

*Net Assets*–GASB defines net assets into three categories:

*Invested in Capital Assets, Net of Related Debt*–Consist 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 Assets*–Consist of net assets 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 Assets*–Consist of net assets 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 assets), DHIN’s policy is to first apply the expense toward restricted resources and then toward unrestricted resources.

*Contractual (Non-Technical) Expense*–DHIN expenses costs as incurred for project development and management. Costs relating to project development and management include expenses for travel, equipment, and consulting.

*Operations Expense*–DHIN expenses costs as incurred for data center support and help desk functions involved with maintaining the DHIN system.

*Income Taxes*–DHIN is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is exempt from filing federal informational returns with the Internal Revenue Service.

*Subsequent Events*–DHIN’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.

**Delaware Health Information Network**  
**Notes to Financial Statements—Continued**  
**June 30, 2013**

**Note 3: Related-Party Transactions**

Certain members of DHIN’s Board of Directors are the Chief Information Officers of organizations which utilize DHIN. DHIN recorded a total of \$2,163,170 and \$1,292,332 in data sender revenue from these organizations during the fiscal years ended June 30, 2013 and 2012, respectively. As of June 30, 2013 and 2012, \$145,437 and \$0, respectively, were due from these organizations and included in accounts receivable.

During FY 2012 DHIN received \$2,996,900 from the State’s bond bill. This funding was eliminated during FY 2013.

During FY 2013, the State Employee Health Fund and Department of Health and Social Services, Division of Medicaid and Medical Assistance (Division of Medicaid) began utilizing DHIN. DHIN recorded \$865,456 in payer fees from the Division of Medicaid during FY 2013. No amount was due to DHIN from the Division of Medicaid as of June 30, 2013.

**Note 4: Lease Agreements**

DHIN leases office space and equipment under operating lease arrangements expiring through June 30, 2015. Rental expense for the years ended June 30, 2013 and 2012 totaled \$88,581 and \$86,354, respectively.

As of June 30, 2013, future minimum lease payments under noncancelable operating leases are approximately:

	<u>Office Space</u>	<u>Equipment</u>
2014	\$ 85,857	\$ 2,604
2015	<u>92,939</u>	<u>2,604</u>
	<u>\$ 178,796</u>	<u>\$ 5,208</u>

The office space lease agreement, effective through June 30, 2015, gives DHIN the option to extend the lease for additional terms of not less than one year increments. DHIN must provide the lessor with notice no less than six months prior to the exercise option.

**Delaware Health Information Network**  
**Notes to Financial Statements–Continued**  
**June 30, 2013**

**Note 5: Property and Equipment**

Property and equipment consisted of the following as of June 30:

	2013	2012
Furniture and Equipment	\$ 14,458	\$ -
Accumulated Depreciation	(3,156)	-
Property and Equipment–Net	\$ 11,302	\$ -

**Note 6: 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. DHIN experienced the following concentrations during the years ended June 30, 2013 and 2012.

**Cash in Excess of Insured Limits**–DHIN 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, 2013 and 2012 totaled \$2,042,863 and \$2,107,280, respectively.

**Major Customers**–Four major customers accounted for approximately 73 percent and 89 percent of DHIN’s Data Sender Fees revenue for the years ended June 30, 2013 and 2012, respectively. Three of these major customers were related parties during FY 2012. During FY 2013 each of the four major customers were related parties of DHIN. (Note 3).

**Major Source of Revenue**–During FY 2012 DHIN received \$2,996,900, or 53 percent of total revenue through the State’s Bond Bill. This funding was eliminated in FY 2013. During FY 2013 DHIN received \$1,630,537, or 26 percent of total revenue through a grant with the Department of Health and Human Services. This grant expires during February 2014. DHIN received \$865,456 from the Division of Medicaid, or 14 percent of total revenue during FY 2013.

**Note 7: Net Assets**

As of June 30, 2012, restricted net assets were comprised of revenue received from the State usable only to meet DHIN’s matching requirement under their federal grant award by the Office of the National Coordinator for Health Information Technology. This amount was released during FY 2013 and as of June 20, 2013, DHIN had no restricted net assets.

**Delaware Health Information Network**  
**Notes to Financial Statements–Continued**  
**June 30, 2013**

**Note 7: Net Assets–Continued**

Unrestricted net assets include internally board-designated funds. As of June 30, 2012, \$20,000 had been designated by the board for a planned Local Area Network (LAN) conversion at DHIN’s office and \$28,000 had been designated for professional fees. These amounts were released during FY 2013 and as of June 30, 2013, DHIN had no internally board-designated net assets.

**Note 8: 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 DHIN’s financial statements.

## **Single Audit**



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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, 2013, and the related notes to the financial statements, which collectively comprise DHIN's basic financial statements and have issued our report thereon dated September 3, 2013.

***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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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, Inc.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether DHIN's financial statements are free of 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 statement amounts. 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 an instance of noncompliance required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as Finding Number 13-1.

### ***DHIN's Response to Findings***

DHIN's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. DHIN's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### ***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 entity'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. However, this report is a matter of public record and its distribution is not limited. This report, as required under 29 Del. C., Section 10002, was provided to the Office of Auditor of Accounts, Office of the Governor, Office of Controller General, Office of Attorney General, and Office of Management and Budget.

*Belfint, Lyons & Shuman, P.A.*

September 3, 2013  
Wilmington, Delaware



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***Independent Auditors' Report on Compliance for Each Major Program  
and on Internal Control Over Compliance Required by OMB Circular A-133***

To the Board of Directors of  
Delaware Health Information Network

***Report on Compliance for the Major Federal Program***

We have audited DHIN's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have direct and material effect on DHIN's major federal program for the year ended June 30, 2013. DHIN's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for DHIN's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about DHIN's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of DHIN's compliance.

To the Board of Directors of  
Delaware Health Information Network

***Opinion on the Major Federal Program***

In our opinion, DHIN, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on ARRA 2009, State Grants to Promote HIT Implementation for the year ended June 30, 2013.

***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Finding Number 13.1. Our opinion on the major federal program is not modified with respect to these matters.

DHIN's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. DHIN's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

***Report on Internal Control Over Compliance***

Management of DHIN is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered DHIN's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of DHIN's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a

To the Board of Directors of  
Delaware Health Information Network

federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding Number 13.1 to be a significant deficiency.

DHIN's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. DHIN's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. This report, as required under 29 Del. C., Section 10002, was provided to the Office of Auditor of Accounts, Office of the Governor, Office of Controller General, Office of Attorney General, and Office and Management and Budget.

*Belfint, Lyons & Shuman, P.A.*

September 3, 2013  
Wilmington, Delaware

**Delaware Health Information Network  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2013**

<b>Federal Grantor/Pass-Through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Receipts/ Revenue Recognized</b>	<b>Value of New Disbursements/ Expenditures</b>
<b>Direct Programs</b>			
<u>Department of Health and Human Services</u>			
ARRA - State Grants to Promote Health Information Technology (HIT) Implementation	93.719	<u>\$ 1,630,537</u>	<u>\$ 1,630,537</u>
<b>Total Federal Awards</b>		<u><u>\$ 1,630,537</u></u>	<u><u>\$ 1,630,537</u></u>

**Delaware Health Information Network**  
**Notes to Schedule of Expenditures of Federal Awards**  
**June 30, 2013**

**A. General**

The accompanying schedule of expenditures of federal awards reflects federal expenditures for all individual grants which were active during the fiscal year.

**B. Basis of Accounting**

The schedule is presented using the accrual basis of accounting and is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

**Delaware Health Information Network**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2013**

**A. Summary of Auditors' Results**

**Financial Statements**

Type of Auditors' Report Issued: Unqualified

Internal Control Over Financial Reporting:

- Material Weaknesses Identified?  Yes  No
- Significant Deficiencies Identified that are Not Considered to be Material Weaknesses?  Yes  None Reported
- Noncompliance Material to Financial Statements Noted?  Yes  No

**Federal Awards**

Internal Control Over Major Programs:

- Material Weaknesses Identified?  Yes  No
- Significant Deficiencies Identified that are Not Considered to be Material Weaknesses?  Yes  None Reported

Type of Auditors' Report Issued on Compliance for Major Programs: Unmodified

Any Audit Findings Disclosed that are Required to be Reported in Accordance with Section 510(a) of Circular A-133?  Yes  No

**Identification of Major Programs**

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.719	ARRA - State Grants to Promote Health Information Technology

Dollar Threshold Used to Distinguish between Type A and Type B Programs: \$ 300,000

Auditee Qualified as Low-Risk Auditee?  Yes  No

**Delaware Health Information Network**  
**Schedule of Findings and Questioned Costs–Continued**  
**June 30, 2013**

**B. Financial Statement Findings**

*No Current Year Findings*

**C. Federal Award Findings and Questioned Costs**

**Department of Health and Human Services**

**Federal Agency: Office of the National Coordinator for Health Information Technology**

**Reference Number: 13-1**

**Program: ARRA - State Grants to Promote Health  
Information Technology (93.719)**

**Type of Finding: Noncompliance, Significant Deficiency**

**Compliance Requirement(s): Cash Management**

**Condition:** A sample of 3 cost reimbursement submittals totaling \$627,478 were selected for audit from a population of 12 totaling \$1,630,537. We identified four instances during the year ended June 30, 2013, totaling \$38,451 of expenditures, which DHIN submitted for and received cost reimbursement from the federal government before payments were made to the vendors.

**Criteria:** OMB Circular A-133 compliance requirements for cash management states that when entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested.

**Cause:** Management believed that by incurring the expense they had met the OMB Circular A-133 cash management compliance requirement.

**Effect:** DHIN was not in compliance with their federal grant award as of June 30, 2013.

**Questioned Costs:** There are no known questioned costs associated with this finding.

**Recommendation:** We recommend before costs are submitted for reimbursement management reviews each underlying invoice to determine if payment for that invoice has been disbursed.

**Views of Responsible Officials and Planned Corrective Actions:** DHIN will wait until funds have been paid, rather than incurred, prior to obtaining reimbursement.

**Delaware Health Information Network**  
**Summary Schedule of Prior Audit Findings–Continued**  
**June 30, 2013**

**Prior Year Financial Statement Findings**

*Finding 12-1–Revenue Recognition*

Material Weakness

Financial Statements

**Condition:** During our audit of DHIN's financial statements, we found that \$190,975 of federal grant revenue attributable to year ended June 30, 2011, was recorded in the year ended June 30, 2012.

**Criteria:** Revenue is recorded when earned in accordance with the accrual basis of accounting, in conformity with accounting principles generally accepted in the United States of America. DHIN's federal grant revenue is based upon reimbursement of allowable costs; therefore, revenue is earned when allowable costs are incurred.

**Cause:** DHIN failed to record applicable federal grant revenue in the same period that the related reimbursable costs were incurred.

**Effect:** As a result of the above-mentioned condition, total revenue was overstated, and beginning unrestricted net assets were understated by \$190,975.

**Recommendation:** We recommend that DHIN's management, on a monthly basis, review and reconcile transactions related to the federal grant to ensure revenue is recorded when allowable costs are incurred and not when reimbursement for the costs is received.

**Views of Responsible Officials and Planned Corrective Actions:** With the change in policy recommended by the auditors, DHIN will record revenue from the Cooperative Agreement when expenses have occurred, as opposed to when funds are received.

**Current Status:** DHIN made the entry to correct the prior year's financial statements. No similar findings were noted during the period's audit.

**Delaware Health Information Network**  
**Summary Schedule of Prior Audit Findings–Continued**  
**June 30, 2013**

**Prior Year Financial Statement Findings–Continued**

*Finding 12-2–Expense Recognition*

Material Weakness

Financial Statements

**Condition:** During our audit of DHIN’s financial statements for the year ended June 30, 2012, we found that unrestricted net assets at July 1, 2011, were understated by \$44,024.

**Criteria:** Expenses are recorded when incurred in accordance with the accrual basis of accounting, in conformity with accounting principles generally accepted in the United States of America.

**Cause:** DHIN recorded a payroll bonus accrual in the amount of \$44,024 at June 30, 2011 before approval was issued by the board of directors. During the year ended June 30, 2012, the board did not approve the 2011 bonus.

**Effect:** As a result of the above-mentioned condition, unrestricted net assets at July 1, 2011 were understated by \$44,024.

**Recommendation:** We recommend that DHIN's management, on a monthly basis, review and reconcile accounts payable to the general ledger to ensure expenses have been recorded only when costs have been incurred.

**Views of Responsible Officials and Planned Corrective Actions:** DHIN will adjust prior year expenses as necessary for variances between accrued and incurred expenses.

**Current Status:** DHIN made the entry to correct the prior year’s financial statements. No similar findings were noted during the period’s audit.

**Delaware Health Information Network**  
**Summary Schedule of Prior Audit Findings–Continued**  
**June 30, 2013**

**Prior Year Federal Award Findings and Questioned Costs**

**Department of Health and Human Services**

**Federal Agency: Office of the National Coordinator for Health Information Technology**

**Reference Number: 12-3**

**Program: ARRA - State Grants to Promote Health  
Information Technology (93.719)**

**Type of Finding: Noncompliance, Significant Deficiency**

**Compliance Requirement(s): Cash Management**

**Condition:** A sample of 6 cost reimbursement submittals totaling \$572,726 were selected for audit from a population of 12 totaling \$746,964. The audit found that supporting cost reimbursement invoices totaling \$116,010 had been submitted for cost reimbursement before payment was made to the vendors.

**Criteria:** OMB Circular A-133 compliance requirements for cash management states that when entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested.

**Cause:** Management believed that by incurring the expense they had met the OMB Circular A-133 cash management compliance requirement.

**Effect:** DHIN was not in compliance with their federal grant award as of June 30, 2012.

**Recommendation:** We recommend before costs are submitted for reimbursement management reviews each underlying invoice to determine if payment for that invoice has been disbursed.

**Questioned Costs:** There are no known questioned costs associated with this finding.

**Views of Responsible Officials and Planned Corrective Actions:** DHIN will wait until funds have been paid, rather than incurred, prior to obtaining reimbursement.

**Current Status:** A similar finding (Finding 13-1–Cash Management) was noted during the current period’s audit in the Schedule of Findings and Questioned Costs.