

**Delaware Health Information Network**

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

**June 30, 2014 and 2013**

**Report Issued: October 1, 2014**

**Delaware Health Information Network**  
**Table of Contents**  
**June 30, 2014 and 2013**

	<u>Page No.</u>
<b>Independent Auditors' Report</b>	1
<b>Management's Discussion and Analysis</b>	5
<b>Financial Statements</b>	
Statements of Net Position	13
Statements of Revenues, Expenses, and Changes in Net Position	14
Statements of Cash Flows	15
Notes to Financial Statements	17
<b>Single Audit</b>	
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 <i>Government Auditing Standards</i>	24
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133	26
Schedule of Expenditures of Federal Awards	29
Notes to Schedule of Expenditures of Federal Awards	30
Schedule of Findings and Questioned Costs	31
Summary Schedule of Prior Audit Findings	33



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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, 2014 and 2013, 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 an opinion on these financial statements based on our audits. We conducted our audits 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

To the Board of Directors  
Delaware Health Information Network

internal control. Accordingly, we express no such opinion. An audit also includes evaluating the 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 opinion.

### ***Opinion***

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, 2014 and 2013, 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 11 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 audits 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 audits were conducted for the purpose of forming an opinion 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  
Delaware Health Information Network

The schedule of expenditures of federal awards 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. Such 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 10, 2014, 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 10, 2014  
Wilmington, Delaware

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

**Delaware Health Information Network**  
**Management's Discussion and Analysis**  
**June 30, 2014**

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, 2014 (FY 2014). Please read it in conjunction with DHIN's audited financial statements, which begin on page 13.

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 position increased approximately 50 percent as a result of FY 2014 operations.
- During FY 2014, DHIN had revenues that were \$1,210,154 more than expenses.
- DHIN received an increase of \$166,630 in federal funds when compared to the prior year under a reimbursable federal grant award.
- DHIN received a \$1,000,000 contribution from Highmark Blue Cross Blue Shield of Delaware during FY 2014.
- Implementation costs increased \$481,545 (or approximately 43 percent) during FY 2014 as a result of implementing a new project, Vital Images, which allows an image to be stored along with a radiologist report.
- Contractual (Non-Technical) costs increased \$514,672 (or approximately 58 percent) during FY 2014 as a result of several projects.

**Delaware Health Information Network**  
**Management's Discussion and Analysis–Continued**  
**June 30, 2014**

**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 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 DHIN'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 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.

**Delaware Health Information Network**  
**Management's Discussion and Analysis—Continued**  
**June 30, 2014**

**Financial Analysis**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>Assets</b>			
Cash and Cash Equivalents	\$ 3,424,437	\$ 2,263,130	\$ 2,332,193
Restricted Cash	-	-	228,228
Receivables—Net			
Trade	475,772	327,600	81,035
State	-	-	483,886
Federal	-	82,814	83,703
Lease Deposit	6,979	6,979	6,979
Property and Equipment—Net	<u>6,482</u>	<u>11,302</u>	<u>-</u>
<b>Total Assets</b>	<u><u>\$ 3,913,670</u></u>	<u><u>\$ 2,691,825</u></u>	<u><u>\$ 3,216,024</u></u>
<b>Liabilities</b>			
Accounts Payable	\$ 114,433	\$ 149,270	\$ 908,341
Accrued Expenses	127,752	108,724	98,320
Deferred Revenue	<u>64,250</u>	<u>36,750</u>	<u>-</u>
<b>Total Liabilities</b>	<u>306,435</u>	<u>294,744</u>	<u>1,006,661</u>
<b>Net Position</b>			
Invested in Capital Assets, Net of Related Debt	6,482	11,302	-
Restricted	-	-	228,228
Unrestricted	<u>3,600,753</u>	<u>2,385,779</u>	<u>1,981,135</u>
<b>Total Net Position</b>	<u>3,607,235</u>	<u>2,397,081</u>	<u>2,209,363</u>
<b>Total Liabilities and Net Position</b>	<u><u>\$ 3,913,670</u></u>	<u><u>\$ 2,691,825</u></u>	<u><u>\$ 3,216,024</u></u>

DHIN's total assets exceeded total liabilities by \$3,607,235, \$2,397,081, and \$2,209,363 at the close of FY 2014, FY 2013, and FY 2012, respectively.

At June 30, 2013, DHIN's net position was not subject to external or internal restrictions. At the close of FY 2014, \$23,500 of DHIN's net position represented resources that were subject to internal restrictions. The value of externally restricted assets at the close of FY 2012 includes \$228,228 in revenue received from the State of Delaware usable only to meet DHIN's matching requirement under their federal grant award by the Office of the National Coordinator for Health Information Technology.

**Delaware Health Information Network**  
**Management's Discussion and Analysis–Continued**  
**June 30, 2014**

**Financial Analysis–Continued**

Total unrestricted net position increased \$1,214,974 (or approximately 51 percent), \$404,644 (or approximately 20 percent), and \$457,125 (or approximately 30 percent) during FY 2014, FY 2013, and FY 2012, respectively.

Total restricted net position decreased \$228,228 (or 100 percent) during FY 2013. Total restricted net position increased \$127,398 (or approximately 126 percent) during FY 2012.

Net assets invested in capital assets, net of related debt decreased \$4,820 (or 43 percent) during FY 2014 as a result of current year depreciation.

**Delaware Health Information Network**  
**Management's Discussion and Analysis--Continued**  
**June 30, 2014**

**Financial Analysis--Continued**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>Operating Revenue</b>			
Data Sender Fees	\$ 2,994,344	\$ 2,658,612	\$ 1,784,959
Payer Fees	2,840,485	1,048,939	-
Professional Service Income	170,151	9,612	151,350
State Operating Assistance	-	-	2,996,900
Federal Grant - Implementation	1,797,167	1,630,537	746,964
<b>Total Operating Revenue</b>	<u>7,802,147</u>	<u>5,347,700</u>	<u>5,680,173</u>
<b>Expenses</b>			
Administration	282,157	292,993	225,169
Contractual (Non-Technical)	1,402,249	887,577	865,725
Depreciation	4,819	3,156	-
Implementation Costs	1,601,562	1,120,017	396,972
Licenses and Software Maintenance	1,081,827	1,049,748	1,046,042
Marketing	90,542	107,930	71,796
Operations	1,089,318	1,050,662	1,076,699
Personnel	2,043,040	1,651,812	1,417,069
<b>Total Expenses</b>	<u>7,595,514</u>	<u>6,163,895</u>	<u>5,099,472</u>
<b>Operating Gain (Loss)</b>	<u>206,633</u>	<u>(816,195)</u>	<u>580,701</u>
<b>Nonoperating Revenue</b>			
Contributions	1,000,000	1,000,000	-
Interest Income	3,521	3,913	3,822
<b>Total Nonoperating Revenue</b>	<u>1,003,521</u>	<u>1,003,913</u>	<u>3,822</u>
<b>Change in Net Position</b>	1,210,154	187,718	584,523
<b>Net Position--Beginning of Year</b>	<u>2,397,081</u>	<u>2,209,363</u>	<u>1,624,840</u>
<b>Net Position--End of Year</b>	<u>\$ 3,607,235</u>	<u>\$ 2,397,081</u>	<u>\$ 2,209,363</u>

**Delaware Health Information Network**  
**Management's Discussion and Analysis--Continued**  
**June 30, 2014**

**Financial Analysis--Continued**

DHIN activities increased DHIN's total net position by \$1,210,154, \$187,718, and \$584,523 during FY 2014, FY 2013, and FY 2012, respectively.

Operating revenues increased by \$2,454,447 (or approximately 46 percent) during FY 2014 as a result of providing services for Medicaid and insurance carriers of the State's Benefit Office for the entire fiscal year. Additionally, during FY 2014 DHIN provided consulting and other professional services to Christiana Care Health Services, the Delaware Division of Public Health, and the Hawaii Health Information Exchange.

Operating revenues decreased by \$332,473 (or approximately 6 percent) during FY 2013 as a result of the State eliminating their operating assistance to DHIN. During FY 2013 DHIN signed new contracts with Medicaid, insurance carriers of the State's Benefit Office, and eight new data senders which increased data sender fees by \$873,653 during FY 2013.

During FY 2012 DHIN signed six new data senders, increased the volume of service provided to current data senders and received an additional \$1,845,283 in state operating assistance resulting in an overall increase of operating revenue of \$2,621,205 (or approximately 46%) .

As of June 30, 2014, DHIN has utilized their entire \$4,680,284 million federal grant award which expired 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, Electronic Medical Records (EMR) vendor interfaces, and new data senders.

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, and brand awareness.

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

**Delaware Health Information Network**  
**Management's Discussion and Analysis--Continued**  
**June 30, 2014**

**Financial Analysis--Continued**

Contractual (Non-Technical) costs increased \$514,672 (or approximately 58 percent) during FY 2014 as a result of several projects:

- Implementing the service to collect newborn screening information from the birthing centers in the state and combine the two types of information (metabolic heel prick information and hearing test information).
- The hiring of a state contractor to create a Health Information Exchange (HIE) plan to connect the DHIN with the State's various departments and divisions.
- Implementing the service to collect CCD (Continuity of Care Documents) from doctor's offices' EMR software and hold them in a central repository.

Total expenses increased \$1,431,619 (or approximately 23 percent) and \$1,064,423 (or approximately 21 percent) during FY 2014 and FY 2013, respectively, as a result of implementing new projects. Total expenses increased \$102,518 (or approximately 2 percent) during FY 2012 as a result of leasing and operating an office location and increasing the number of staff.

## **Financial Statements**

**Delaware Health Information Network**  
**Statements of Net Position**  
**June 30, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>Assets</b>		
Cash and Cash Equivalents	\$ 3,424,437	\$ 2,263,130
Receivables–Net		
Trade	475,772	327,600
Federal	-	82,814
Lease Deposit	6,979	6,979
Property and Equipment–Net	6,482	11,302
<b>Total Assets</b>	<b>\$ 3,913,670</b>	<b>\$ 2,691,825</b>
<b>Liabilities</b>		
Accounts Payable	\$ 114,433	\$ 149,270
Accrued Expenses	127,752	108,724
Deferred Revenue	64,250	36,750
<b>Total Liabilities</b>	<b>306,435</b>	<b>294,744</b>
<b>Net Position</b>		
Invested in Capital Assets, Net of Related Debt	6,482	11,302
Unrestricted	3,600,753	2,385,779
<b>Total Net Position</b>	<b>3,607,235</b>	<b>2,397,081</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 3,913,670</b>	<b>\$ 2,691,825</b>

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

**Delaware Health Information Network**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>Operating Revenue</b>		
Data Sender Fees–Net	\$ 2,994,344	\$ 2,658,612
Payer Fees	2,840,485	1,048,939
Professional Service Income	170,151	9,612
Federal Grant - Implementation	<u>1,797,167</u>	<u>1,630,537</u>
<b>Total Operating Revenue</b>	<u>7,802,147</u>	<u>5,347,700</u>
<b>Operating Expenses</b>		
Administration	282,157	292,993
Contractual (Non-Technical)	1,402,249	887,577
Depreciation	4,819	3,156
Implementation Costs	1,601,562	1,120,017
Licenses and Software Maintenance	1,081,827	1,049,748
Marketing	90,542	107,930
Operations	1,089,318	1,050,662
Personnel	<u>2,043,040</u>	<u>1,651,812</u>
<b>Total Operating Expenses</b>	<u>7,595,514</u>	<u>6,163,895</u>
<b>Operating Gain (Loss)</b>	<u>206,633</u>	<u>(816,195)</u>
<b>Nonoperating Revenue</b>		
Contributions	1,000,000	1,000,000
Interest Income	<u>3,521</u>	<u>3,913</u>
<b>Total Nonoperating Revenue</b>	<u>1,003,521</u>	<u>1,003,913</u>
<b>Change in Net Position</b>	1,210,154	187,718
<b>Net Position</b> –Beginning of Year	<u>2,397,081</u>	<u>2,209,363</u>
<b>Net Position</b> –End of Year	<u><u>\$ 3,607,235</u></u>	<u><u>\$ 2,397,081</u></u>

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

**Delaware Health Information Network**  
**Statements of Cash Flows**  
**Years Ended June 30, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>Cash Flows from Operating Activities</b>		
Cash Received from Customers	\$ 5,882,558	\$ 3,507,167
Cash Received from Grantors for Operating Purposes	1,879,981	2,115,312
Cash Payments to Suppliers	(5,689,345)	(5,360,099)
Cash Payments to Employees	(1,915,408)	(1,549,126)
<b>Net Cash from Operating Activities</b>	157,786	(1,286,746)
<b>Cash Flows from Investing Activities</b>		
Interest Income	3,521	3,913
Net Transfers Restricted Cash	-	228,228
<b>Net Cash from Investing Activities</b>	3,521	232,141
<b>Cash Flows from Capital Financing Activities</b>		
Purchase of Capital Assets	-	(14,458)
<b>Cash Flows from Noncapital Financing Activities</b>		
Contributions	1,000,000	1,000,000
<b>Net Cash from Noncapital Financing Activities</b>	1,000,000	1,000,000
<b>Change in Cash and Cash Equivalents</b>	1,161,307	(69,063)
<b>Cash and Cash Equivalents—Beginning of Year</b>	2,263,130	2,332,193
<b>Cash and Cash Equivalents—End of Year</b>	\$ 3,424,437	\$ 2,263,130

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

**Delaware Health Information Network**  
**Statements of Cash Flows–Continued**  
**Years Ended June 30, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>		
Operating Gain (Loss)	\$ 206,633	\$ (816,195)
Adjustments to Reconcile Operating Loss to Net Cash From Operating Activities		
Bad Debt	1,750	181
Depreciation	4,820	3,156
Change in Assets		
Accounts Receivable–Trade	(67,108)	238,029
Change in Liabilities		
Accounts Payable	(34,837)	(759,071)
Accrued Expenses	19,028	10,404
Deferred Revenue	27,500	36,750
	<u>\$ 157,786</u>	<u>\$ (1,286,746)</u>
<b>Net Cash from Operating Activities</b>	<b>\$ 157,786</b>	<b>\$ (1,286,746)</b>

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

**Delaware Health Information Network**  
**Notes to Financial Statements**  
**June 30, 2014**

**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 State's 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.

DHIN is the sole member of the Delaware Center for Health Innovation, Inc. (DCHI), a charitable non-stock corporation, incorporated in the State of Delaware during April 2014. DCHI was created specifically to support and benefit the State of Delaware and the citizens thereof by furthering the efforts of the Delaware Health Care Commission (Commission), an independent public instrumentality established pursuant to *16 Del. C. §§ 9902*, and DHIN. DHIN's authority to act as sole corporate member of DCHI is subject to the written approval of the Commission. DCHI is a related organization of DHIN and has not met the criteria to be included in DHIN's financial statements as a component unit.

**Delaware Health Information Network**  
**Notes to Financial Statements–Continued**  
**June 30, 2014**

**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. 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.

***Operating Revenues and Expenses***–DHIN’s operating revenues and expenses consist of charges for services and cash receipts from grants for specific services considered to be operating activities. DHIN’s operating expenses consist of 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. Data sender fees are shown net of discounts of \$173,164 and \$187,363 for years ended June 30, 2014 and 2013, respectively. 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. Accounts are written off when management deems they are uncollectible. The allowance for doubtful accounts was \$0 as of June 30, 2014 and 2013. Bad debt expense for the fiscal years ended June 30, 2014 and 2013 totaled \$1,750 and \$181, 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, 2014**

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

**Deferred Revenue**—DHIN’s deferred revenue consists of cash received in relation to a service contract for which the services have not yet been provided. DHIN 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**—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 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), 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, 2014**

**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 \$944,768 and \$2,163,170 in data sender revenue from these organizations during the fiscal years ended June 30, 2014 and 2013, respectively. As of June 30, 2014 and 2013, \$0 and \$145,437, respectively, were due from these organizations and included in accounts receivable.

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 \$1,724,816 and \$865,456 in payer fees from the Division of Medicaid during the fiscal years ended June 30, 2014 and 2013, respectively. No amount was due to DHIN from the Division of Medicaid as of June 30, 2014 and 2013.

**Note 4: Lease Agreements**

DHIN leases office space and equipment under operating lease arrangements expiring through fiscal year June 30, 2019. Rental expense for the years ended June 30, 2014 and 2013 totaled \$90,493 and \$88,581, respectively.

As of June 30, 2014, future minimum lease payments under noncancelable operating leases are approximately:

	<u>Office Space</u>	<u>Equipment</u>
2015	\$ 92,939	\$ 6,087
2016	-	3,483
2017	-	3,483
2018	-	3,483
2019	-	1,451
	<u>\$ 92,939</u>	<u>\$ 17,987</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, 2014**

**Note 5: Property and Equipment**

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

	2014	2013
Furniture and Equipment	\$ 14,458	\$ 14,458
Accumulated Depreciation	(7,976)	(3,156)
Property and Equipment–Net	\$ 6,482	\$ 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, 2014 and 2013.

**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, 2014 and 2013 totaled \$3,189,164 and \$2,042,863, respectively.

**Major Customers**–Four major customers accounted for approximately 76 percent and 73 percent of DHIN’s Data Sender and Payer Fees revenue for the years ended June 30, 2014 and 2013, respectively. Each of the four major customers were related parties during FY 2013. During FY 2014, two of the four major customers were related parties of DHIN (Note 3).

**Major Source of Revenue**–DHIN received \$1,797,167 and \$1,630,537, or 20 and 26 percent of total revenue through a grant with the Department of Health and Human Services during FY 2014 and 2013, respectively. This grant expired during February 2014. DHIN received \$1,724,816 and \$865,456, or 20 and 14 percent of total revenue from the Division of Medicaid during FY 2014 and 2013, respectively.

**Note 7: Net Position**

As of June 30, 2014 and 2013, DHIN had no restricted components of net position.

Unrestricted net position includes internally board-designated funds. As of June 30, 2013, DHIN had no internally board-designated components of net position. As of June 30, 2014, \$23,500 had been designated by the board for future expenses associated with two EMR vendors.

**Delaware Health Information Network**  
**Notes to Financial Statements–Continued**  
**June 30, 2014**

**Note 8: Commitments and Contingencies**

DHIN is contracted with a certain vendor through June 2016. Future minimum payments cannot be reasonably determined due to the unforeseeable nature of the services to be provided. Expenses incurred to this vendor during FY 2014 and 2013 totaled \$3,730,182 and \$3,137,369, respectively.

In the normal course of business, there are various commitments and contingences 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.

**Note 9: Reclassification**

DHIN reclassified its presentation on the prior year financial statements to present revenue from a federal grant contract as operating revenues. The contract's purpose is to fund implementation costs. Implementation is an ongoing component of DHIN's operations and the costs of implementation are reported as operating expenses. Prior to the reclassification, revenue from the federal grant contract was reported as nonoperating revenue. The reclassification had no effect on previously reported change in net position or total net position.

## **Single Audit**



***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, 2014, and the related notes to the financial statements, which collectively comprise DHIN's basic financial statements, and have issued our report thereon dated September 10, 2014.

***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 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 may exist that were not identified.

***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 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 no instances of noncompliance or other matters 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 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.

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

September 10, 2014  
Wilmington, Delaware



*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, 2014. 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 its major federal program for the year ended June 30, 2014.

***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.

*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 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.

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

To the Board of Directors of  
Delaware Health Information Network

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.

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

September 10, 2014  
Wilmington, Delaware

**Delaware Health Information Network  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2014**

<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)	93.719	<u>\$ 1,797,167</u>	<u>\$ 1,797,167</u>
<b>Total Federal Awards</b>		<u><u>\$ 1,797,167</u></u>	<u><u>\$ 1,797,167</u></u>

**Delaware Health Information Network**  
**Notes to Schedule of Expenditures of Federal Awards**  
**June 30, 2014**

**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, 2014**

**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, 2014**

**B. Financial Statement Findings**

*No Current Year Findings*

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

*No Current Year Findings*

**Delaware Health Information Network**  
**Summary Schedule of Prior Audit Findings**  
**June 30, 2014**

**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: 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.

**Recommendation:** We recommended before costs are submitted for reimbursement management review 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.

**Current Status:** During FY 2014, DHIN implemented a new procedure to ensure all invoices are paid before the reimbursement revenue from the grant is requested. The new procedure is to attach to each reimbursement submission request a list of invoices along with the dates the checks were cashed to ensure payment is made before the reimbursement is requested. No findings were noted in the current year.